REPORT RESUMES

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HISTORY OF EMPLOYMENT AND MANPOWER POLICY IN THE UNITED STATES. PARTS I AND II, DEPRESSION EXPERIENCE, PROPOSALS, AND PROGRAMS. SELECTED READINGS IN EMPLOYMENT AND MANPOWER, VOLUME 5.

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THE SELECTED READINGS WERE COMPILED TO PROVIDE SUBCOMMITTEE MEMBERS WITH A BROAD BACKGROUND OF DEVELOPMENTS LEADING TO THE EMPLOYMENT ACT OF 1946 AND WITH APPRAISALS OF ITS ADEQUACY AND EFFECTIVENESS. MATERIAL IN THIS VOLUME SPANS THE LATE 1920'S AND THE GREAT DEPRESSION. PARTS III AND IV (VT 004 820) CONTINUE THE HISTORICAL BACKGROUND AND REVIEW. REPRESENTATIVE SELECTIONS OF PART I, WHICH DEALS WITH THE CRASH AND DEPRESSION, ARE--(1) "RECENT EMPLOYMENT MOVEMENTS" BY S.H. SLICHTER, (2) "BLACK DEPRESSION" BY F.L. ALLEN, (3) "BUSINESS LOOKS AT UNEMPLOYMENT" BY J.H. BARNES, (4) "CAUSES OF WORLD DEPRESSION" BY J.M. KEYNES, AND (5) "JOB HUNTERS" BY E.W. BAKKE. REPRESENTATIVE SELECTIONS FROM PART II, WHICH DEALS WITH DEPRESSION PROGRAMS AND PROPOSALS, ARE--(1) "FROM 1921 FORWARD" BY E.E. HUNT, (2) "THE SENATE TAKES STOCK" BY J. COUYENS, (3) STATEMENT BY PRESIDENT HERBERT HOOVER, MARCH 7, 1930, (4) "A 5-YEAR PLAN FOR AMERICA" BY C.A. BEARD, (5) "THE CASE FOR FEDERAL RELIEF" BY G. PINCHOT, (6) "UNEMPLOYMENT INSURANCE, AN AMERICAN PLAN TO PROTECT WORKERS AND AVOID THE DOLE" BY F. PERKINS, (7) "UNEMPLOYMENT AND RECOVERY" BY E.E. WILE, (8) "SAFEGUARDS AGAINST DEPRESSION--AN ANALYSIS OF DEPRESSION CURES" BY S.H. SLICHTER, (9) "UNEMPLOYMENT IN THE UNITED STATES, 1930-40" BY P. WEBBINK, AND (10) "THE SICK WORLD OF JOHN MAYNARD KEYNES" BY R.L. HEILBRONER. THIS DOCUMENT IS AVAILABLE AS Y4L11/2--EM7/7/V.5 FOR $1.25 FROM SUPERINTENDENT OF DOCUMENTS, U.S. GOVERNMENT PRINTING OFFICE, WASHINGTON, D.C. 20402. (MM)

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HISTORY OF EMPLOYMENT AND MANPOWER POLICY IN THE UNITED STATES

PARTS I AND II—DEPRESSION EXPERIENCE, PROPOSALS, AND PROGRAMS

SUBCOMMITTEE ON EMPLOYMENT AND
MANPOWER

OF THE

COMMITTEE ON LABOR AND
PUBLIC WELFARE
UNITED STATES SENATE

VOLUME 5 OF SELECTED READINGS IN EMPLOYMENT
AND MANPOWER

U.S. DEPARTMENT OF HEALTH, EDUCATION & WELFARE
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FOREWORD

Following an intensive appraisal of current and emerging manpower problems, conducted from May through December 1963, the Subcommittee on Employment and Manpower presented its findings and recommendations in a report entitled "Toward Full Employment: Proposals for a Comprehensive Employment and Manpower Policy in the United States." Taken together, the whole emphasis of the recommendations by the majority members of the subcommittee was that the employment goal, among those established by the Employment Act of 1946, should be more vigorously pursued. It was suggested that the legislative mandate to the executive branch be strengthened if necessary by amending the act. On October 1, 1964, Senator Wayne Morse, of Oregon, and Senator Gaylord Nelson, of Wisconsin, joined with me in sponsoring a bill designed to achieve that purpose.

Since specific legislative proposals in this connection were not taken up during the 1963 hearings, I requested the staff to compile a selection of materials which would provide subcommittee members with a broad background of developments leading to the Employment Act of 1946, and also with appraisals of its adequacy and effectiveness over the past 18 years. The material in this volume spans the late 1920's and the great depression, a period which spawned revolutions in economic thought and policy. It is the fifth volume in the series, "Selected Readings in Employment and Manpower." Subsequent volumes will complete the historical background and review. I am sure it will prove to be a valuable working document for Members of the 89th and subsequent Congresses. It is essential to the deliberations of this subcommittee and I therefore order it to be printed.

JOSEPH S. CLARK,
Chairman, Subcommittee on Employment and Manpower.

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INTRODUCTION

As the 89th Congress convenes, less than three decades have elapsed since the publication of Keynes' "General Theory of Employment Interest and Money."

Less than two and a half decades have elapsed since World War II brought the great depression to an end.

Yet in these three brief decades most of what may be called American employment and manpower policy has evolved. This volume provides an account of the great depression of the 1930's and the thinking and policies directed at relieving its effects and starting recovery.

In 1929, just before the great crash, before statistical measurement of unemployment even existed, there was already a growing concern about unemployment, its causes, and the possibility that it was increasing. The article by Sumner H. Slichter, a distinguished Harvard economist, represents a professional look at what were disturbing employment declines in several industries, and an analysis of several alternative explanations. This makes for an interesting parallel to current discussions of unemployment, especially in light of the concluding plea for "efficient national organization of the labor market." Nor was concern limited to professionals in the academic world. The report of the Senate Committee on Education and Labor in March 1929 is an interesting reflection of congressional concern. The study commissioned by the committee, and conducted by Isador Lubin, of the Brookings Institution follows. William Leiserson's article discusses some of the characteristics of "prosperity unemployment"—notably the plight of older workers. Beulah Amidon assembled some specific examples of technological change and worker displacement of the times. Isador Lubin's article "Let Out" is a vivid account of the personal impact of unemployment in a market of limited employment alternatives. Taken together, these represent a rather widespread concern about joblessness in a year in which unemployment averaged an estimated 1.6 million or 3.2 percent of the labor force.

John Kenneth Galbraith, a distinguished economist, ambassador, and historian of the great crash has said:

> **Some years, like poets and politicians and some lovely women, are singled out for fame far beyond the common lot, and 1929 was clearly such a year. Like 1066, 1776, and 1914, it is a year everyone remembers * * * A reference to 1929 has become shorthand for the events of that autumn.**

Those events are seen through the eyes of two observers in this volume. Arthur M. Schlesinger, Jr., author of "The Roosevelt Years," cast the events mainly in their political environment; Frederick Lewis Allen's treatment is more descriptive of the stock market and those who operate in it.

"Statistics are bloodless things" states Frederick Lewis Allen at the start of his description of events in 1932. The skill with which the data were made human, places "Black Depression" high among the descriptive classics of the human misery, frustration, and hopelessness which attended mass unemployment in the great depression. This is followed by a technical by a readable discussion of the then current debate over technological unemployment. It was authored by Alvin H. Hansen, who later became one of the first architects of full employment policy proposals. The article by Julius Barnes is a view of unemployment as seen from the "businessmen's" point of view.

"* * * If then, I am right * * *" said Keynes in 1931, 5 years before publication of his General Theory, "* * * the fundamental cause of the trouble is the lack of new enterprise due to an unsatisfactory market for capital investment * * *." It was the investment function which was to play a central role in the General Theory and the Keynesian Revolution. Richard A. Lester describes the futility of the generally held business view that price stability would restore confidence and start the Nation toward prosperity again while at the same time workers were being laid off and incomes were declining. E. Wight Bakke describes the experience of a typical individual actively seeking work in 1933. "The Hungry City" was written by Joseph L. Heffernan, then mayor of Youngstown, Ohio, and is an account of the frustrations encountered by a public official attempting to deal with the problems of mass unemployment and the timidity in seeking new solutions. Part I of this series concludes with a look backward at 1929 by John Kenneth Galbraith from 1954.

By way of prefacing part II of this volume, which deals with depression programs and proposals, a chronology of congressional efforts to stabilize employment before the depression has been included. Edward Eyre Hunt, writing in 1929, describes President Hoover's recognition of unemployment as a national problem since 1921, and his concern about it. Senator James Couzens, of Michigan, reviews the hearings on unemployment before the Senate Education and Labor Committee in 1929 and the recommendations based thereon. The statement by President Hoover in March 1930 is famous for the expressed conviction that the worst effects of the collapse were over. "Prosperity cannot be restored by raids upon the Public Treasury," stated President Hoover at the end of 1930 in response to efforts in Congress to increase relief measures. The Congressional Digest summarizes the Hoover unemployment program.

"What shall we do about unemployment?" is the editorial query of the Nation magazine in December 1930, and recommends enactment of legislation sponsored by Senator Wagner of New York to establish a national unemployment insurance system and a national public employment service. "Responsibility in Albany" affords a look at Roosevelt as Governor of New York, those who surrounded him, and the thinking of the team that was to enter the White House in March 1933. H. R. Mussey reviews the three proposals being considered to deal with unemployment in 1930. Charles A. Beard, prolific observer of the American scene, proferred a "5-year plan" for the country in mid-1931. President Hoover's message to Congress at the end of that year claimed that data from the Public Health Service showing declines in sickness and mortality rates proved that the unemployed were being "protected from hunger and cold;" it protested further involvement of the Federal Government, and expressed faith in the ability of the economy to recover because it had always done so in the past. Sumner Slichter describes the extent of joblessness in 1932 and the size of the relief burden. He also discusses the weakness of public works efforts, the futility of attempts to "spread work" among 11 million unemployed and a host of other programs and proposals.

The Agenda of Reform reviews variations in thinking of leading economists in the early thirties, some of whom were to become influential in the "New Deal." Gifford Pinchot demands that tax rates on upper income brackets be increased to provide funds for Federal relief. Senator Robert F. Wagner discusses the need for a compulsory national unemployment insurance program and reviews the extensive development of such programs in other countries. Isador Lubin reviews the testimony of witnesses on questions of economic planning before the Senate Committee on Manufactures. A bill, sponsored by Senator Robert F. LaFollette, Jr., proposed creation of a National Economic Council, similar in function to the present Council of Economic Advisers. Frances Perkins, who was to become Secretary of Labor in the Roosevelt Cabinet, poses unemployment insurance as an alternative to "the dole." A debate over the merits of Senator Wagner's employment service proposals is reproduced as it appeared in the Congressional Digest in January 1931. Mauritz A. Halgren gave another view of relief needs and responsibilities.

By March 1933, the depression had persisted for more than 3 years. According to estimates made later, joblessness rose from 1.6 million persons in 1929 to 12.1 million in 1932. E. Wright Bakke describes the early experience and impact of unemployment relief efforts. Covington Gill describes the direct relief program under the Federal Emergency Relief Administration. Otto Nathan reviewed the NRA in the context of what it might contribute to long-run stabilization. In "Jobs for All," a New Republic article appearing in July 1935, Jonathan Mitchell gives a critical appraisal of employment relief programs.

"The year 1935 marked a watershed," wrote Arthur M. Schlesinger, Jr., ". . . the strategy of the New Deal experienced a subtle but pervasive change." In "The Ideology of the Second New Deal," he describes the many facets of that change, and the inroads that Keynes was making in the prevailing concepts of political economy. "Roosevelt's Tree Army" is a discussion of the Civilian Conservation Corps. "Can We Employ the 8 Million?" is really a debate over whether or not industry could recover unaided. With unemployment at 8 million John G. Jones cites the "unfilled need for nearly a million skilled workers." The rejoinder states that industry cannot possibly cope with the situation alone, and suggests that one reason for the shortage of skilled workers is that too many people are going to college. Emerson Ross examines the unemployment situation in early 1937 and its implications for future programs. In "Unemployment and Recovery," Edwin E. White looks at the need for skilled workers and calls for a "revival of apprenticeship." Sumner Slicher examines the recovery policies of the New Deal. The wait for the economy to right itself had thus far been in vain. President Hoover was convinced that government intervention would prevent recovery, intensify unemployment, and that relief would demoralize workers. On inauguration day "the fog of despair hung over the land." In Prologue, 1933, Arthur M. Schlesinger describes the mood of the country and the ride of Hoover and Roosevelt from the White House to the Capitol. "This Nation asks for action, and action now," stated Roosevelt in his first inaugural speech. "Our greatest primary task is to put people to work." The "New Deal" had commenced.

The "Blue Eagle," as the National Recovery Administration became known, was one of the early programs of the New Deal. An early appraisal of its effectiveness was undertaken by J. M. Clark, professor of economics at Columbia University.

Dean Brimhall reviews the accomplishments of the WPA. Paul Webink's article is an overview of unemployment and New Deal programs from the vantage point of mid-1940. The volume concludes with Robert L. Heilbroner's classic and uniquely literate treatment of Lord Keynes.

The material in this and subsequent volumes dealing with the history of employment and manpower policy was compiled and organized by Frazier Kellogg, staff economist of the subcommittee. The task of gathering material contained herein was made eminently more efficient by the able assistance of Peter Sheridan and his staff at the Legislative Reference Service in the Library of Congress.

JOSEPH S. CLARK,
Chairman, Subcommittee on Employment and Manpower,
Senate Committee on Labor and Public Welfare.

PART I. THE CRASH AND DEPRESSION

[From Survey, Apr. 1, 1929]

RECENT EMPLOYMENT MOVEMENTS

(BY SUMNER H. SLICHTER)

For the first time in the history of this rapidly growing country, employment in our two largest branches of industry—farming and manufacturing—is manifesting a definitely downward trend. The drop has not been a momentary slump such as business depressions have often produced. It is a longtime trend which has been going on in agriculture since about 1910, and in manufacturing since 1920, and which may continue for some time to come. In addition, there has been a substantial decrease in the number of railroad workers since 1920, and employment in mining has remained substantially stationary.

The greatest drop has occurred in farming. The agricultural census of 1925 indicates that farm population diminished by 2,500,000 between 1920 and 1925, and the Department of Agriculture estimates that there was a further fall of nearly 1,300,000 between 1925 and 1928. Not all of the persons who left the farms were employed in agriculture, but if the proportion so employed was the same as in the total farm population of 1920 (admittedly a conjectural assumption), then there has been a drop of approximately 1,200,000 in agricultural employment. The decrease in factory workers between 1919 and 1925 was over 800,000. The change since 1925 is uncertain, but the index of the Bureau of Labor Statistics indicates that factory workers in 1928 were 200,000 less numerous than in 1925 (assuming that the bias in the index, due to its failure to take account of new plants, has been the same since 1925 as it was between 1923 and 1925). The decrease in railroad employment since 1920 has been about 300,000 (exclusive of the drop in the shop forces which is counted in the decrease in factory employment). In all, there has been a decrease of about 2,300,000 during the last 8 years in the number of persons employed in four major branches of industry—farming, manufacturing, railroading, and mining.

Between 1920 and 1928, the population of the country increased by 13,600,000. Were it not that employment in many branches of industry has grown at a spectacular rate, we should undoubtedly be confronted with unemployment of unprecedented volume. But between 1920 and 1927 the number of workers in the building trades increased by possibly 300,000. The more than two-fold gain in automobile registrations has led to an increase of roughly 750,000 persons engaged in selling and servicing automobiles and of more than 500,000 in the number of hotelworkers. Public-school teachers increased by 135,000 between 1920 and 1926, and telephone employees by over 78,000 between 1920 and 1927. L. B. Mann estimates that there are now 100,000 more life insurance agents than in 1920. Bobbed hair and a substantial rise in the purchasing power of salaries and wages have produced a boom in the barbering and beauty-parlor businesses and an increase of nearly 200,000 in the number of barbers and hairdressers. Finally, the students in secondary schools and colleges have increased from 3,100,000 in 1920 to nearly 5,200,000 in 1926, or 67 percent. Whether or not the net result has been a growth in unemployment no one knows, because there are too many uncertain items on each side of the balance sheet. One thing, however, is certain—occupational shifts of almost revolutionary size and rapidity have been occurring. These shifts are the outstanding characteristic of the present labor market. What causes lie behind them and what problems of public policy do they create?

The recent shrinkage in agricultural, factory, and railroad employment and the stationary employment in mining have not been caused by a drop in production. Agricultural output it is true, was slightly less than in 1927 than in 1920 but factory production increased 22 percent, the output of freight-ton-miles by the railroads about 4 percent, and the output of mines about 20 percent. The growth of physical output in the face of shrinkage or stationary employment has led many persons to attribute the displacement of men to labor-saving methods and machines. Fewer workers are said to be needed because each man is producing so much more. It is pointed out, for example, that whereas the average output per factory worker actually diminished by about 5 percent between 1909 and 1919, it increased about 30 percent between 1920 and 1927.

But this explanation is too simple to fit the facts. In the first place, in neither mining nor railroading has production per employee grown so rapidly since 1920 as it did during the decade ending with 1919. Yet between 1910 and 1920, the number of mine workers and railroad workers increased. In the second place, the shrinkage of employment in manufacturing has occurred to a great extent in industries which have suffered from contraction of markets rather than in those in which technical change has been most rapid. Ship and boat building, which lost 337,000 men, alone counts for over half the total drop among wage earners in manufacturing between 1919 and 1925. The agricultural depression is mainly responsible for the decrease of employment in the farm-implement and fertilizer industries, and changing fashions and social habits largely account for the fewer workers engaged in the manufacture of buttons, needles, hooks, pins, eyes, snap fasteners, hairpins, combs, jewels, cigar boxes, sewing machines, and sewing-machine cases and attachments. In about 23 industries a major, if not the major, reason for the shrinkage of employment has been contraction in the market. These industries account for about three-fourths of the total drop in factory employment between 1919 and 1925. In the third place, the industries which have been characterized by most revolutionary technical changes do not necessarily employ fewer workers. The petroleum-refining, automobile, pottery, cement, and cast-iron-pipe industries have all experienced radical technical changes during the last 7 or 8 years, but in every instance there has been a substantial increase in their total employment since 1920.

Closely related to the suggestion that machines are primarily responsible for the shrinking or stationary employment in farming, manufacturing, railroading, and mining, is the theory, advanced frequently during the last year, that the producing power of industry has been outrunning the purchasing power of the public. But this theory will not bear examination. To begin with, the extraordinary flood of goods which is said to be taxing the public's ability to purchase is not in evidence. Agricultural output in 1920 was greater than it has been in any subsequent year. Factory and mineral production increased substantially between 1920 and 1923, but since 1923 they have increased less rapidly than during most of the first two decades of the century. During the quinquennial ending in 1927, factory output gained only 4 percent as against 22 percent between 1899 and 1904, 30 percent between 1904 and 1909, 6 percent between 1909 and 1914, and 26 percent between 1914 and 1919. The output of mines was almost stationary—it increased less than 2 percent as against a 90-percent expansion during the period 1898–1900—1908–10, and 45 percent during the period 1908–10—1918–20. The output of railroads has also been practically stationary since 1923. During the first two decades of the century, however, it grew rapidly—43 percent between 1899 and 1904, 37 percent between 1904 and 1909, 27 percent between 1909 and 1914, and 29 percent between 1914 and 1919. These figures deserve special emphasis. During the years of the much vaunted "Coolidge prosperity," the production of four major branches of industry was almost stationary. Clearly it is ridiculous to assume that the country has been deluged with a rapidly rising flood of goods.

But the case against the overproduction theory of displacement becomes stronger when we examine the value of the output of farming, manufacturing, railroading, and mining. Although the physical product has been growing at a modest rate, the value product, due to falling prices, diminished from approximately $107,420 million in 1920 to $84,917 million in 1923, and $88,033 million in 1927. In other words, the amount received by farmers, manufacturers, railroads, and mines for their output in 1927 was approximately 18 percent less than in 1920, and only about 3½ percent more than in 1923. During the same time, however, the number of dollars spent by the country was rapidly growing. The best index of national expenditures is furnished by debits to individual accounts. Prof. M. A. Copeland has estimated that the total volume of debits in 1927 was 35 percent above 1920, and 41 percent above 1923. In order to be conservative, however, we shall measure expenditures by the actual debits in 140 cities exclusive of New York. In 1927, they were 17 percent above 1920 and 25 percent above 1923. In view of these figures, it is conservative to assume that the dollar expenditures of the country in 1927 were at least one-fifth more than in 1920 and one-fourth more than in 1923. Since the output of farms, factories, railroads, and mines has been diminishing in value while the country's volume of spending has been increasing, it is scarcely possible to explain the trend of employment in these four main branches of industry by the country's inability to purchase their products.

Still another popular explanation of the falling or stationary employment in some branches of industry is the alleged restriction of production on the part of employers—a restriction motivated by the fact that greater profit can be made by selling a limited output at a higher price and made possible by trade associations and other devices for creating concert of action. But this explanation obviously does not apply to either agriculture or railroading, which together account for over two-thirds of the total shrinkage in employment. Nor does it apply to bituminous coal mining which, from the standpoint of employment, is by far the most important of the mining industries. Some color is lent to the theory that during the last 5 years combinations of manufacturers have limited output, by the fact that between 1919 and 1923 the physical output of factories increased by 28 percent whereas between 1923 and 1928, according to the latest figures, it increased only 10 percent. In many branches of manufacturing, however, competition has been notoriously severe. Furthermore, absence of effective restriction is indicated by the decrease of about 7 percent in nonagricultural wholesale prices between 1923 and 1927, and by the exceptionally high failure rate among manufacturing enterprises. In fact, substantially more manufacturers failed during each of the 5 years from 1923 to 1927 than in 1921, the worst year of the depression.

Evidently a major reason for the trend of employment in agriculture, manufacturing, railroading, and mining is the state of demand—the reluctance of the public to buy more from these branches of industry. Even the modest increases in physical output during the last 4 years have been forced upon the market only by price reductions—for between 1923 and 1927, the average wholesale price of nonagricultural products decreased 7 percent and of mineral products about 9 percent and the gross revenue of railroads per ton-mile and the average farm price of 30 commodities each dropped about 3 percent. It is this unwillingness of the public to buy more agricultural commodities, manufactured goods, railroad service, and mineral products which, in conjunction with the growing productivity of labor, explains the course of employment in these industries. Only because of the state of demand has the growing effectiveness of labor tended to displace men quite as much as to increase the output of farms, factories, railroads, and mines.

The effect of relatively stationary demand and of technical progress upon employment in farming, manufacturing, railroading, and mining has been accentuated by the movements of (1) wages, (2) the price of producers' goods, and (3) longtime interest rates. All of these prices have fallen since 1920, but producers' goods and interest rates have decreased much more than wages. Consequently employers have found it profitable to use relatively more capital and relatively less labor. Just how great has been the incentive to substitute capital for labor is roughly indicated by the fact that the average hourly earnings of a factory worker would purchase 67 percent more producers' goods in 1927 than in 1920, and 21 percent more than in 1923. And in 1927 money for investment in plant and new machinery could be borrowed for about one-fourth less than in 1920 and for about one-seventh less than in 1923.

The rapid substitution of capital for labor is best indicated by changes in the number of wage earners and in the capacity of prime movers. In railroading, for example, the tractive power of locomotives per railroad employee increased 11 percent between 1913 and

1920, but 35 percent between 1925 and 1927. In manufacturing, the number of wage earners and the amount of horsepower in the average factory have changed as follows:

	Wage earners	Horsepower	Horsepower per wage earner
1914	39	126	3.2
1919	42	137	3.3
1923	45	169	3.8
1925	45	193	4.3

It will be observed that, between 1914 and 1919, there was substantially no change in the amount of installed power per wage earner, but that after 1919 the amount of power per worker increased nearly one-third.

To assert that price movements are causing the displacement of men is not simply another way of saying that new inventions are displacing men. Technical change might take the form of methods which require less capital and more labor. But the price movements of the last 8 years have created an incentive for a particular kind of technical change; namely, methods of production, which require relatively little labor. Behind the particular kind of technical change which has occurred are the price movements that have made this sort of change especially profitable. Furthermore, these price movements have made it profitable to displace men even where new machines have not been invented because they have made it advantageous to use the existing machines in situations where formerly it did not pay. Even had no labor-saving devices been invented, recent price movements alone would have caused the displacement of some men.

If the public is spending more in all, but less for the products of farms, factories, railroads, and mines, its outlays for many other things must have expanded stupendously. Some of the ways in which money is being spent produce little employment, and if unemployment today is abnormally large, part of the explanation must be that huge sums are being used in ways that set relatively little labor at work. For example, in 1928 the public spent nearly $70 billion on the New York Stock Exchange—more than twice as much as in either 1920 or 1923.

The number of real estate transfers has also increased since 1920. It is obvious that expenditures for neither stocks nor real estate create many jobs. On the other hand, some of the shifts in spending have created many new jobs. Behind the rapid increases in the number of building tradesmen, teachers, telephone employees, and life insurance agents is the fact that since 1920 the country has approximately doubled its expenditures for their products. It is these spectacular shifts in the Nation's expenditures which make the employment problem of today primarily one of shifts in the demand for labor rather than of shrinkage in the number of jobs.

Nevertheless large and rapid shifts in the demand for labor, even though not accompanied by a net decrease in the total number of jobs, may create serious unemployment in some occupations and in some regions. Indeed, being thrown out of work by a permanent decrease in the staff is often more burdensome than being thrown out by a seasonal or a cyclical slump. In the latter cases the workman is fairly certain that within a few months he will again be needed by his old employer and that he will soon be back at his old job. He is without work, but he does not necessarily regard himself as without a job or without an employer. But the man who is dismissed because of a permanent reduction of staff is without both work and a job. He must find a new employer, possibly in a new industry, and often in another city.

Permanent staff reductions are especially disastrous for the oldest and the least efficient men—the very ones whom enterprises are most likely to lay off and who are most likely to experience difficulty in obtaining work. It is not surprising, therefore, that there has been much complaint during the last several years concerning unemployment among older men. All of this has an important bearing on the problem of old-age pensions. A man who loses his regular job and who, on account of his age, must struggle along with intermittent employment at low wages is likely to use up, 10 or 15 years earlier than he intended, the savings which he accumulated against old age. Not because he has failed to save, but because market shifts or technical changes have deprived him of steady work 10 or 15 years before the normal age of retirement, he may find himself destitute at 60 or 65. In view of the fact that market shifts or industrial progress, from which the rest of the community profits, are partly responsible for this destitution, the community has a peculiarly strong obligation to provide these men with a pension. The greater the shifts in demand and the more rapid the rate of technological change, the more acute is the need for old-age pensions.

But the problems created by employment shifts are by no means confined to the older workers. Any man who is displaced because the number of jobs in his occupation or industry is shrinking, is likely to have trouble in finding work that he is especially well qualified to do. His difficulty is likely to be enhanced by the fact that the shifts in employment are regional as well as occupational and industrial. Jobs which he could well fill may be available but they may be so far away that he does not learn of them. The following table, however, showing the changes in the number of factory wage earners between 1919 and 1925 and in the farm population 10 years of age and over between 1920 and 1925, indicates the unevenness of the regional changes in these industries.

Region	Factory wage earners, 1919-25	Percent of change	Farm population 10 years of age and over, 1920-25	Percent of change
New England	−229,173	−17.0	+19,076	+3.7
Middle Atlantic	−381,614	−13.3	−82,806	−5.5
East north central	−53,819	−2.3	−314,674	−8.3
West north central	−46,815	−9.4	−177,704	−4.6
South Atlantic	+21,622	+2.7	−524,149	−11.4
East south central	+26,769	+8.1	−387,672	−10.3
West south central	−20,084	−7.0	−325,440	−8.6
Mountain	−8,842	−8.1	−108,828	−12.7
Pacific	−20,155	−4.6	+13,225	+1.6

Five-sevenths of the decrease in factory employment, it will be observed, occurred in the New England and Middle Atlantic States. These States, however, contained only 47 percent of the total factory wage earners in 1919. Nearly two-thirds of the decrease in farm population occurred in the South. It will be observed also that factory employment increased in the South Central States and farm population increased in New England and in the Pacific States. The figures by industries and States would show a still more spotted distribution of employment changes. The flour industry, for example, has been decreasing in Minneapolis and increasing in Buffalo, Kansas City, and St. Louis; cotton manufacturing has been diminishing in New England since 1921, but growing in the South; the coal industry has been declining in Illinois, Indiana, Iowa, Ohio, and Pennsylvania, but expanding rapidly in Kentucky, Virginia, and West Virginia. Farming is increasing in the Dakotas, Nebraska, Kansas, Oklahoma, Texas, and Colorado.

The uneven regional distribution of occupational changes indicates the need for an efficient national organization of the labor market. The need is as urgent as was, until a few years ago, the need for efficient organizations to distribute railroad cars or credit. Again and again one section of the country suffered from lack of cars or credit, while others had surplus supplies. Shippers' advisory boards and the Federal Reserve bank have ended regional car and credit shortages. Some employers are opposed to any arrangement which increases the mobility of labor. But the economic justification for improving the mobility of labor is precisely the same as the justification for improving the mobility of credit or of freight cars. If it is legitimate for the Government, through the agency of the Federal Reserve banks, to create a national market for certain varieties of commercial paper, it is equally legitimate for the Government to assist in creating a national market for labor.

[S. Rept. No. 2072, 70th Cong., 2d sess.]

CAUSES OF UNEMPLOYMENT

February 25 (calendar day, March 1), 1929.—Ordered to be printed

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Mr. Couzens, from the Committee on Education and Labor, submitted the following

REPORT

[Pursuant to S. Res. 219]

Under date of May 3, 1928, the Senate adopted Senate Resolution 219 of the 70th Congress, 1st session. The resolution was as follows:

> Whereas many investigations of unemployment have been made during recent years by public and private agencies; and
>
> Whereas many systems for the prevention and relief of unemployment have been established in foreign countries, and a few in this country; and
>
> Whereas information regarding the results of these systems of unemployment, prevention, and relief is now available; and
>
> Whereas it is desirable that these investigations and systems be analyzed and appraised and made available to the Congress: Therefore be it
>
> *Resolved*, That the Committee on Education and Labor of the Senate, or a duly authorized subcommittee thereof, is authorized and directed to make an investigation concerning the causes of unemployment and the relation to its relief of (a) the continuous collection and interpretation of adequate statistics of employment and unemployment; (b) the organization and extension of systems of public employment agencies, Federal and State; (c) the establishment of systems of unemployment insurance or other unemployment reserve funds, Federal and State, or private; (d) curtailed production, consolidation, and economic reconstruction; (e) the planning of public works with regard to stabilization of employment; and (f) the feasibility of cooperation between Federal, State, and private agencies with reference to (a), (b), (c), and (e). For the purposes of this resolution such committee or subcommittee is authorized to hold hearings and to sit and act at such times and places; to employ such experts and clerical, stenographic, and other assistants; to require, by subpena or otherwise, the attendance of such witnesses and the production of such books, papers, and documents; to administer such oaths and to take such testimony and make such expenditures as it deems advisable. The cost of stenographic services to report such hearings shall not be in excess of 25 cents per hundred words. The expenses of such committee, which shall not be in excess of $15,000, shall be paid from the contingent fund of the Senate upon vouchers approved by the chairman. The committee or subcommittee shall make a final report to the Senate as to its findings, together with such recommendations for legislation as it deems advisable, on or before February 15, 1929.

Shortly after the Senate had adopted the resolution your committee met to consider plans for making the survey. The assistance of the Institute of Economics of the Brookings Institution of Washington, a nonpartisan, private organization, was sought, and the institute assigned Dr. Isador Lubin, of its staff of economists, to assist in directing the work. The work of the institute has been voluntary, and, as a result, the expense of the survey to the Government has been slight.

The committee and the Senate owe the Institute of Economics a debt of gratitude, and the committee herewith expresses it and also compliments the institute upon the work it has done.

The report of Dr. Lubin which summarizes the evidence submitted to the committee and comments upon it, is printed at the conclusion of the printed hearings. Anyone who has followed this work or is interested in this subject should read this report.

The committee is likewise indebted to the Industrial Relations Counselors of New York, another endowed organization which has been interested in the subject of unemployment. This organization contributed to the committee three volumes of a report it has made on the subject of unemployment-insurance plans. Although this report touches on some subjects which had also been reviewed by your committee, we feel that the whole is of such value that it should be printed as a part of the evidence of your committee and this has been done.

Likewise, the committee is indebted to any number of business men who gave, unstintingly and willingly, of their time and services.

Your committee was interested, primarily, in the worker who desires to work, who is seeking an opportunity for gainful employment, and who is unable to find it. There are others who might be listed as "among the unemployed" but those who are not employed because they do not choose to be employed, hardly constitute a problem for this committee.

The evidence taken shows the causes or the types of unemployment might be divided into three classes: cyclical, seasonal, and technological.

Little necessity exists for describing these three classifications. Cyclical unemployment has been like the plague; it has come and gone at regular intervals until it has been accepted as a necessary evil by some who should know otherwise. We do not believe, any more, that it is necessary for the baby to have the diphtheria and rickets and other "diseases of childhood." We have found and are finding methods of preventing these diseases. We should recognize also that there is an obligation on all society to attack, unceasingly, the problem of unemployment.

Cyclical unemployment can be best attacked through the control of credit, according to the experts who testified before your committee. It was the expressed view of these students that the Federal Reserve System has done and is doing a great deal toward this end.

We all know the story of progression and retrogression in industry as told in the history of all cyclical unemployment. Although there may be different causes and although no student seems to be able to lay down a dogma as to causes which are universally accepted, the results are much the same. We have the first evidence of increased business, development of "better times" psychology, increased orders and increased production, plant extensions, increased stocks on shelves, extensions of credit and then the swing downward, a swing which is merely accelerated.

And for labor, we have the inculcation of the practices of inefficiency which are definite marks of every period of overdevelopment and overexpansion and then—unemployment.

As Dr. John R. Commons put it in his testimony before your committee, "We first demoralize labor and then we pauperize it."

We desire to call the reader's attention to the statement of Dr. Lubin in the report of the Institute of Economics, which reviews the incidents of cyclical unemployment at greater length and with more pointed facts.

Seasonal unemployment is of more immediate interest because here we have a daily problem, year in and year out, which confronts the industrial leader and society in general. If the businessmen of the country will solve this problem to the extent it is possible of solution, will eliminate this waste, the saving to industry will be $2 billion a year, according to the testimony of Mr. Sam O. Lewisohn, a leader in many industries, who appeared before your committee. Seasonal unemployment can be attacked in many ways. It is being successfully attacked in many industries as the evidence will show. Discussion of these methods of attack will be found in other sections of this report.

Technological unemployment covers that vast field where, through one device or another, and chiefly through a machine supplanting a human, skilled workers have found that their trades no longer exist and that their skill is no longer needed. What becomes of these men? What can be done about these thousands of individaul tragedies? What do these individual tragedies mean to society as a whole?

It is an imponderable thing. Some of the experienced witnesses who appeared before your committee stated that new industries absorb the labor turned adrift by machine development. The automobile, the airplane, the radio, and related industries were suggested as examples. Undoubtedly there is much truth in these statements, but nevertheless we are not relieved of the individual problem. It offers little to the skilled musician to say that he, who has devoted his life to his art, may find a job in a factory where radio equipment is manufactured. Then there is the delay, that inevitable period of idleness when readjustments are being effected, the suffering, the loss, the enforced change in environment. True, this may all be "the price of progress" but society has an obligation to try, at least, to see that all this "price" does not become the burden of the worker.

This subject also will be discussed more fully under other chapters of this report.

There is one other field of unemployment, the field wherein we find the crippled, the superannuated, the infirm. This field constitutes a problem for industry and for society. It is a growing field, we believe. The man of mature years is not so successful when competing with a machine as is a younger man. The problem of these men will also be touched upon in other chapters of this report.

Your committee is required by Senate Resolution 219 to make a report on the causes of unemployment. So many inquiries have been made on this subject, so many conferences have been held, so many reports made, so many volumes written, that it would seem impossible to contribute anything additional of great value.

However, your committee feels that it has accomplished something. We have striven to obtain an understanding of some of the conditions which cause unemployment, of the machinery now had to detect when and where unemployment exists, and of the existing facilities for the treatment and the relief of the condition, once it is known to exist.

It is probable the survey could have been more comprehensive and that the report of your committee might be more dogmatic, but we emphasize that this is a so-called short session of Congress, and that it is most difficult to accomplish a great work like this at a short session. Senators are beset with two or more conflicting committee meetings and they must choose between them. Because of this condition, it was impossible to obtain the constant attendance of all members of the committee at all meetings.

Notwithstanding, your committee feels that it has contributed toward an aroused interest in the subject, that another effort has been made to interest leaders in industry in the problem of stabilizing employment, that the evidence collected and printed in the hearings will provide an opportunity for a better understanding of the whole situation, and that as a result of this survey another advance has been made in the effort to solve the difficult problem of unemployment.

Regardless of what may be said in derogation of conferences and investigations, this survey shows conclusively that the unemployment conference, which was convened in 1921 under the leadership of Herbert Hoover, did accomplish something. That conference aroused the interest of some employers in the subject of stabilization. They returned to their plants and began an effort to stabilize employment in their industries. They attained some success and then more, and as they succeeded and realized what they had gained, they became missionaries in the field. Now, they have appeared before your committee and their testimony speaks for itself.

Before proceeding with a detailed discussion of the evidence, your committee wishes to voice the opinion that the unemployment problem can only be solved through constant struggle on the part of all members of society. When your committee uses the word "solved," it merely means that an opportunity will have been given to everyone who really desires work. No one will question that every man is entitled to the opportunity to provide for himself and his family. That is a fundamental right and society cannot consider itself successfully organized until every man is assured of the opportunity to preserve himself and his family from suffering and want.

If we consider the question from the viewpoint of duty alone, every member of society has an obligation to assist in solving it. The employer, undoubtedly, has the greatest duty and the greatest responsibility. He is using labor to make a profit for himself and if he is going to take the advantages of this system of society, he must assume the obligations likewise. The laborer, or worker, or employee has a duty to assist also because there is nothing more certain than that, as every step forward is made in the solution of this problem, the individual laborer or worker will gain tremendously.

It is an interesting thing in this connection that the man who must labor inevitably thinks most of steady employment, as the evidence presented by the Industrial Relations Counselors shows. The fear of being "out of a job" is one of the most demoralizing factors in all the relations of man to his job and employee to his employer.

And it may as well be remembered that society is going to solve this problem, is going to provide an opportunity for man to sustain himself, or is going to sustain man. Society is going to provide an opportunity for man to pay his own way or is going to pay for him. Society may as well make every effort to do the job constructively, because no society can be strong in which its members are encouraged or forced to adopt the position and the place of those seeking charity, and secondly, because when society pays the bill through charity or through the cost of crime, the payments offer little possibility of any advance for mankind.

Mr. Daniel Willard, president of the Baltimore & Ohio Railroad Co., put the whole story rather pithily. In the first place, he described the old days of intensive individualism where goods were produced, largely, in individual shops and by hand labor. Now we have the tremendous factories, the mass production, and the wealth pouring from machines and moving on for the benefit of society. If society is going to take this benefit, then society must also accept the burdens, Mr. Willard suggested. A man out of work, discontented, and suffering, constituted a danger for society, he added. As he put it, a man is going to steal before he starves, and the word "steal" may cover a multitude of other crimes—crimes perhaps of the man who steals but crimes of far greater magnitude for that society which permits a condition which induces or invites men to steal.

Your committee will now proceed with the detailed demands of the resolution and will discuss the subjects in the order in which they are presented in the resolution.

(A) THE RELATION HAD BY THE CONTINUOUS COLLECTION AND INTERPRETATION OF ADEQUATE STATISTICS OF EMPLOYMENT AND UNEMPLOYMENT TO THE RELIEF OF UNEMPLOYMENT

The testimony of Commissioner Ethelbert Stewart, of the Bureau of Labor Statistics of the Department of Labor; the testimony of Dr. John R. Commons; of Mr. Bryce M. Stewart; of Mr. Morris E. Leeds, and of a number of other witnesses, shows the necessity of having adequate statistics of employment and unemployment. To know there is a problem, that there is unemployment, and how severe it is, is necessary before a successful attack on it can be made. That seems so obvious it is hardly worth stating.

We have absolutely no figures as to the number of persons unemployed at any definite time. Commissioner Stewart explains that situation in his testimony. He has made estimates on the "shrinkage" of employment. The unemployment conference of 1921, after deploring the fact that there were absolutely no data obtainable on the subject made its "best guess." Just last year, one dispute after another arose in Congress over the number of men out of work. True, the discussion was open to the charge of being largely political, but political or otherwise, it should have served to have driven home the point that here was a government without any machinery for knowing whether it was afflicted with a disease to which might be added the cancer that destroys government.

If we do not have accurate information on this subject, we may rest assured we are going to have plenty of inaccurate information. The subject is one which is very articulate in itself. Our experience should be convincing that all this is so. And in this connection it might be well to reflect on the truth that facts will permit sound thinking and that an absence of facts produces a condition of fear and panic which may be far more costly to the country than would be the cost of maintaining a system of obtaining these statistics.

As to the method of gathering information, and as to what should be gathered, there is cause for question and study. Statistics, to be of any immediate value, must be gathered quickly, must give a true picture and must permit of proper and correct appraisement. Inaccurate statistics are of no value, and statistics which are months and years old are of about the same value as is the result of a post mortem to a physician and no more so. They may have value in dealing with the problem as a whole, but have no use in relieving immediate necessity.

Commissioner Stewart proposes to develop statistics as to unemployment by measuring the shrinkage and the increase of employment and unemployment in a considerable number of industries and by applying to the norm the factors thus obtained. This should permit a fairly accurate measurement of conditions to be obtained with sufficient rapidity to meet any demand. But the norm must be first established and Commissioner Stewart proposes to have it established by an accurate census.

The Bureau of the Census should obtain the information that Commissioner Stewart desires and should obtain it at the next census in 1930. The Bureau of the Census may say its other duties would be delayed in this effort, but this work of building an efficient system of measuring unemployment is far more important, in the opinion of your committee, than a great deal of other information obtained through the census.

As to supplementary statistics, these might and perhaps should be obtained in any number of ways. However, it is the testimony of witnesses before your committee that until we get a system of unemployment exchanges established in the various cities and States, it is doubtful that we shall get a report more valuable than that proposed to be obtained by Commissioner Stewart.

(B) THE ORGANIZATION AND EXTENSION OF SYSTEMS OF PUBLIC EMPLOYMENT AGENCIES, FEDERAL AND STATE

The Government now appropriates $200,000 for the work of the U.S. Employment Service. The director of that Service, Mr. Francis I. Jones, appeared before your committee, and his testimony will be found in the hearings.

Your committee also directs attention to the testimony of Mr. Bruce M. Stewart, to that of Dr. John R. Commons, and to the report of Dr. Lubin, of the Institute of Economics.

As is shown by Dr. Lubin, the Employment Service is a result of war experiences. When the country was mobilized for war purposes and the necessity existed to find a man for every place more than a place for every man, a war unemployment machine was developed.

And, being regarded as an instrument of war, the machinery was scrapped in time of peace. Funds were not appropriated, offices were abandoned, personnel dismissed, and of even more importance, the employers in private life who had maintained an active interest in the unemployment exchanges permitted that interest to wane.

The result is we have an unemployment service which functions as a Federal organization only in the matter of placing farm labor and which endeavors to function through grants of money, out of the Federal appropriation, to assist in the maintenance of State or city employment exchanges. The situation is one not conducive to building interest in the organization as it now exists.

As is shown by Dr. Lubin in his report, recommendations for the establishment of public employment exchanges have been made for two decades whenever a program for relieving conditions of unemployment was given consideration. As far back as 1916 recommendatitons were made that the country must first organize a national system of labor exchanges in order to deal with the unemployment problem, as Dr. Lubin shows. In 1921 the President's Conference on Unemployment recommended the formation of a national system of employment exchanges and later this recommendation was indorsed by the committee which prepared for Mr. Hoover a special report on business cycles and unemployment. The conclusion of the committee was that "the greatest promise seems to be in the development and raising to a high standard of efficiency of a national system of employment bureaus."

The "pinch" of unemployment is rarely appreciated until it becomes personal. Epidemics of disease may afflict one section of the country and arouse tremendous interest and even concern in the other sections, but until unemployment becomes local and personal it seems to arouse little fear. The man at work appears to have little realization of how he is affected by the fact that his fellow man is out of a job. The organization to handle the disease in this form should be local also, it seems to your committee. It should be one which would be responsible to local conditions and one which is responsible also to local officials, to local employers, and to local employees.

Dr. Commons advised your committee that the States and cities should establish and operate the unemployment exchanges and that the Federal Government should merely establish an organization of experts to coordinate the work of the local exchanges and "to bring up the standard" of those offices. Your committee is in accord with the idea that the Federal Government should remain as far away from the operation of those local offices as is possible. The employment exchanges should be local, we repeat.

To be successful, in fact to be of any great value, public employment agencies or exchanges must have the confidence of those for whom the exchanges are established, in other words for the employer and the employee immediately interested. This confidence can only be established through efficient operation of such offices. The personnel must have the ability to invite and induce and then to assemble information as to the needs of the employer and, having done this, must perform the next function of making the contact between the employer and the man who wants a job. If the office is efficiently operated and deserving of the confidence needed for success, the endeavor will not only be to find a job for the man and a man for the job, but will be to find the right man for the right job, to effect a placement where both the employer and the employee will be pleased and likely to remain so.

As Dr. Commons said in his testimony, "the best employment agencies in the United States are not the public employment agencies but they are the employers themselves." He added that he "did not believe that we can have public employment offices in this country until the employers are willing to support those offices.

In other words, the employers who have the most intimate touch with the opportunities for labor, must have sufficient confidence and interest in the employment exchanges to make use of them. The labor or unemployment exchange must become to the employer for labor purposes just what his bank is for purposes of obtaining capital.

Discussing the organization of employment exchanges, Dr. Commons offers the example of the Milwaukee office, which is conducted and maintained by the local governments, State and city. There, he testified, we had for years the experience connected with an employment exchange which existed for itself and for jobs for the personnel. Then the personnel was placed under civil service rules, candidates for positions were graded in accordance with educational qualifications and experience and then an advisory committee, representing organized employers and organized labor, selected the best candidate for director of the office. The man was appointed. To the criticism that the unorganized worker is not represented in this plan, Dr. Common replies that the organized employer always takes care of the unorganized worker and adds that "the plan has worked."

Aside from the Wisconsin offices, there are efficient exchanges in some other States, although the number is so small that it does not even offer the skelton of a national system. Thirteen States, as Dr. Lubin shows, have no employment offices whatsoever. In 11 States there is only 1 office and in other States the number of offices vary up to the point where 17 offices are found in the State of Illinois. The amounts appropriated by the States also vary tremendously. In Wyoming, for example, $900 is granted for the work, and from that point the State expenditures for this purpose increase to the point where $231,360 is spent in Illinois. The total appropriations of all the State governments aggregate only $1,203,906.

Aside from these general services on the part of the Government of the United States and upon the part of State governments, the U.S. Employment Service conducts a farm-labor division which has temporary offices at important points in the agricultural States. Critics who have studied the work of the service concede that this is an important task and that it is well done.

In view of this very limited service throughout the country, in view of the few offices conducted and the apparent lack of interest, is there any cause for amazement in the fact that private employment exchanges thrive in many cities, and thrive despite the manner in which some of the private exchanges are conducted—to not always cast credit on the business?

The burden of assisting the unemployed to find work should be borne by organized society through the maintenance of efficient public employment exchanges. Efficient public employment exchanges should replace private exchanges. Private employment exchanges which merely attempt to make contact between a worker and a job, which are operated for profit and solely for profit, present a situation where there are conditions conducive to petty graft. Such practice at the expense of the unemployed is a crime which should not be tolerated.

Your committee might summarize its views on this subject in this manner:

1. The existing U.S. Employment Service should be reorganized.
2. The Director and every employee of the Service should be selected and appointed after a rigid civil service examination.
3. The administrative features of the civil service examination should permit the cooperation of organized industry and organized labor in weeding out the candidates for these places, at least the place of the executives.
4. The Service should become an organization of experts whose duties would be to coordinate the work of the States.
5. Aside from compiling statistics and endeavoring to arrange a plan which would permit the Government to be advised promptly and accurately of conditions throughout the various State exchanges, the Federal Service should not be active. In other words, the Government should remain as completely detached from the operation of exchanges throughout the States as it is possible for it to be.

There has been some question of the plan now in vogue whereby the Government contributes financial assistance to the State offices. Witnesses before your committee insisted unemployment anywhere in the country was of national concern and therefore should be treated to some extent with the aid of the Government. But it is certain that some definite system or plan should be devised under which the Government should grant this money to the States if the Government assistance is to continue. The Government expert should make certain that the Government was not contributing to inefficiency in the service.

(C) THE ESTABLISHMENT OF SYSTEMS OF UNEMPLOYMENT INSURANCE OR OTHER UNEMPLOYMENT RESERVE FUNDS, FEDERAL, STATE, OR PRIVATE

In connection with this subject your committee recommends the reading of the testimony of Dr. John R. Commons, of the Institute of Economics, and the Industrial Relations Counselors, as well as the testimony of the businessmen who discussed conditions in their own industries.

We think it is generally agreed by the witnesses that at the present time the following conclusions would be drawn from the evidence:

1. Government interference in the establishment and direction of unemployment insurance is not necessary and not advisable at this time.
2. Neither the time nor the condition has arrived in this country where the systems of unemployment insurance now in vogue under foreign governments should be adopted by this Government.
3. Private employers should adopt a system of unemployment insurance and should be permitted and encouraged to adopt the system which is best suited to the particular industry.

Until an opportunity or some cause such as this survey is had to focus attention on the industrial developments in this country, little consideration is given to the accomplishments such as we find in the field of stabilizing employment.

Undoubtedly there are not sufficient industrial leaders who are interested as yet, but there is cause to believe they will be, and simply because of economic pressure. It seems reasonable to assert, from the testimony taken during this survey, that the employer who does not stabilize his employment and thus retain his experienced workmen is the employer who is going to fail.

Just as the efficient businessman is stabilizing the return for capital invested, by building up reserves for dividends, so shall he establish a reserve for return to labor in the hours of adversity, according to the well-founded arguments advanced by businessmen. And why? The testimony from witness after witness stresses the point that there is no suggestion of charity in this effort, no idea of being philanthropic, no desire to have industry to become paternalistic. True, in most cases the plans were started because an industrial leader became conscious of some of his obligations to society. But there is general accord on the proposition that the plan is "good business," that it has increased profits.

One witness asked, "Shall the businessman who expands his business without consideration for future requirements escape his responsibility?"

Mr. Morris E. Leeds, of Leeds & Northrup, described his theory as follows:

> I was convinced a good many years ago of the element of unfairness and social wrong that modern industry had gotten into by freely hiring people and with equal freedom, firing them.

Mr. Daniel Willard said:

> It seems to me that those who manage our large industries, whatever the character of their output may be, whether it be shoes, steel, or transportation, should recognize the importance and even the necessity of planning their work so as to furnish as steady employment as possible to those in their service. Not only should that course, in my opinion, be followed because it is an obligation connected with our economic system, but I fully believe that such a course is justifiable from the standpoint of the employer because it would tend to develop a satisfied and contended body of workmen which of itself would improve efficiency and reduce costs.

The testimony speaks for itself and everyone interested should read it. At this time there is nothing that can be recommended on this score in the way of legislation. However, your committee can express the hope that organizations of capital and of labor and that officials of the Federal and State Governments shall never lose an opportunity to inspire thought and discussion on this question of the necessity and the advisability of stabilizing employment within the industries themselves.

Stabilization has been sought and obtained in various ways. One employer has placed practically all his workers on a salary basis, has assured them of a continuous wage throughout the year, and has placed upon them the responsibility of making the industry succeed. Others have established reserve funds and have so arranged them that executives and workers strive to prevent them from being drained. Others have so ordered their production that it is spread throughout the year. Others have begun the production of articles which are related to the general business plan but which can be produced in periods which formerly were marked by idleness.

The testimony is fairly convincing that stabilization can be accomplished in industries which were once regarded as being seasonal in their every aspect.

Fifteen bills dealing with unemployment insurance have been introduced in six State legislative bodies since 1915, and none of them has been successful. Probably the so-called Huber bill, introduced in the Wisconsin Legislature, came nearest to adoption, and its author, Dr. Commons, advised your committee that it "was as dead as anything could be."

In many industries, as the evidence will show, a reserve fund for unemployment which offers protection in the form of insurance has been adopted. The testimony of Dr. Commons as to the practice in the Chicago clothing industries is important as well as the reports of the industrial relations counselors.

Whatever legislation is considered on this subject, your committee is convinced, should be considered by the States. The States can deal with this subject much better than can the Federal Government. But in any discussion of legislation, your committee thinks consideration should be given to the arguments of Dr. Commons—that the plan of reserve funds or insurance confined to one company or plant rather than to all industries, should be adopted.

Dr. Commons stresses the fact that the insurance idea as practiced in the Chicago market follows the experiences gained from the adoption of disability compensation plans in various States. Employers were moved to adopt every precaution against accidents when they realized that accidents were costly under the plans for disability compensation. In the same way, employers and employees will be more likely to fight the causes of unemployment within their industries when they have seen tangible evidence of the cost of unemployment, according to the arguments advanced in this evidence. On the other hand, Dr. Commons insists that, "the paternalistic and socialistic" schemes adopted in foreign countries, penalize success in that the employer who stabilizes his employment does not escape the burden of paying for unemployent in other industries.

Your committee cannot leave this subject without suggesting that consideration be given to the benefits of stabilized production—the finer morale of the workers, the better workmanship, the increased production, the lowered costs of production, and the elimination of the cost of training the unskilled recruits. The testimony proves conclusively that the workers who cooperate with their employers and who are given a chance and encouraged, contribute tremendously to the success of the enterprise.

(D) CURTAILED PRODUCTION, CONSOLIDATION, AND ECONOMIC RECONSTRUCTION

This subject covers so vast a field that it also immediately becomes imponderable. To exhaust it seems impossible. A committee of Congress could proceed with a study on this one phase of the unemployment problem and could continue indefinitely.

The general opinion given your committee on this score is that undoubtedly just at this time we are experiencing a program and a problem which are no different to those occurring since the advent of machines in industry. The difference is, however, that undoubtedly at this time the developments are far more extensive and far more intensive than they have ever been in our history.

Of course there is going to be individual suffering, for example, the suffering of the musician who discovers that a machine is forcing him to forgo his life work and to seek employment in new fields. How to answer the many questions which arise with every minute of consideration for this topic is what makes the subject imponderable. The printed evidence contains suggestions of the shortened working day and the reduced working week, has contentions that new industries are arising constantly out of the graves of departed trades and the workers are thus absorbed. Your committee is convinced, however, that it is the duty of society to provide for these workers during the period of readjustment, as many employers are now doing.

Conflicting opinions are offered as to the effect of the vast consolidations of wealth. One side contends that the day of the small businessman is passing, that the individual merchant can no longer compete with the national chain, while another will contend that no nationally organized chain can overcome the personal effort put into a business by the individual businessman.

However, in the time your committee had for this subject no opportunity presented itself for the consideration of legislation on this subject, and your committee has nothing to suggest at this time.

(E) THE PLANNING OF PUBLIC WORKS WITH REGARD TO STABILIZATION

Another committee of Congress, the Committee on Commerce, has considered this subject and has reported legislation which is now before the Senate. The legislation is commonly referred to as the "Jones prosperity reserve bill." Your committee would suggest that the evidence submitted with reference to that bill should be read in connection with this study.

There is some testimony of interest on this subject in these hearings, but your committee did not devote a great deal of time to this topic, because no one disagreed with the suggestion that the Government and all other public agencies should so order their public works that they would offer a buffer in time of unemployment.

The evidence is very clear that the Federal Government may set a valuable example to the States in the adoption of a practical scheme for the planning of public works. Of course, the States and the other divisions of Government will have the greatest opportunity to provide this buffer because the expenditures by the Federal Government for public works are not large as compared with the expenditures by the States and other civil divisions. There should be no delay upon the part of the various governments, Federal, State, city, and other minor subdivisions in the adoption of such plans.

There are minor objections to this scheme but your committee is convinced they can be overcome without difficulty.

(F) THE FEASIBILITY OF COOPERATION OF FEDERAL, STATE, AND PRIVATE AGENCIES WITH RESPECT TO ALL THESE SUBJECTS RELATED TO THE UNEMPLOYMENT PROBLEM

Your committee has discussed this phase of the survey as it has proceeded with this report and there is little to add. In general, it is the opinion of your committee that the responsibility should be kept as "close to home" as is possible. Private agencies should make the first effort and should do everything they can for themselves. The States should contribute only that service that private agencies would find impossible and the Government should merely coordinate the work of the States and supply any effort which is entirely and purely of national character.

Your committee will now endeavor to sum up the suggestions and recommendations:

1. Private industry should recognize the responsibility it has to stabilize employment within the industry. The Government should encourage this effort in every way, through sponsoring national conferences, through publishing information concerning the experience had by industries in this work, and through watching every opportunity to keep the thought of stability uppermost in the minds of employers.

2. Insurance plans against unemployment should be confined to the industry itself as much as possible. There is no necessity and no place for Federal interference in such efforts at this time. If any public insurance scheme is considered, it should be left to the State legislatures to study that problem.

3. The States and municipalities should be responsible for building efficient, unemployment exchanges. The Government should be responsible for coordinating the work of the States so as to give a national understanding of any condition which may rise and so as to be able to assist in any national functioning of the unemployment exchanges.

4. The existing U.S. Employment Service should be reorganized, and every employee should be placed under civil service.

5. Efforts should be made to provide an efficient system for obtaining statistics of unemployment. The first step should be taken by the Bureau of the Census in 1930, when the Bureau should ascertain how many were unemployed as of a certain date and how many were not seeking employment and yet were unemployed as of that date.

6. The Government should adopt legislation without delay which would provide a system of planning public works so that they would form a reserve against unemployment in times of depression. States and municipalities and other public agencies should do likewise.

7. Further consideration might well be given to two questions, the effect had on unemployment by industrial developments such as consolidation of capital, and the necessity and advisability of providing either through private industry, through the States, or through the Federal Government, a system of old-age pensions.

SUMMARY OF AN INVESTIGATION OF UNEMPLOYMENT BY THE BROOKINGS INSTITUTION

(Statement by Isador Lubin before the Senate Committee on Labor and Public Welfare)

The evils of unemployment have been too often heralded to need elaboration here. The reduction or entire loss of family incomes with the consequent expenditure of family savings, the almost inevitable piling up of debts, the loss of physical possessions, and the frequent dispossession of families from their homes have all been too well portrayed in the past to need comment here.

Reports of the Department of Labor, of social agencies, of trade unions, of mayors' committees, and the testimony of court officers, personnel directors, and leaders of industry bear testimony to the deteriorating effect of unemployment both upon workers and industry. Nor need one do more than refer to the incalculable losses which results from the workers being forced into lower standards of living, from the impairment of health and vitality, and from the general lowering of the morale and self-respect of the worker as a result of unemployment.

Without exception, it was the opinion of all who testified before your committee that unemployment is primarily a problem of industrial organization nad not one of individual character. No impartial observer of industry would today attribute the existence of any but a relatively small share of unemployment to the workers themselves. The view widely held in the past that the unemployed are themselves to blame for not having jobs, and that all who really wanted work could find it if they tried hard enough, has long been discarded. Recurrent business depressions with as many as 25 percent of the able-bodied workers deprived of the means of a livelihood have shown the fallacy of the assumption that the laborer is at such times responsible for his plight.

Although the dramatic spectacle of millions of unemployed working the streets of our industrial communities during recurring periods of business depression temporarily makes vivid the enormity of the problem of unemployment it must be borne in mind that there are millions of workers to whom the loss of employment is a spectre which threatens during every year of their working existence. Unemployment is a persistent factor in modern economic life. The industries and plants which can give regular employment to all of their laborers, even in times of prosperity, are few indeed. The records of the State of Massachusetts for the years 1908 to 1922, based on returns from labor organizations, show that on the average 7.7 percent of the membership of the trade unions reporting were involuntarily out of employment, due to lack of work, during these years. An investigation of the extent of unemployment in the urban centers of the United

States from 1902 to 1917 places the minimum number of unemployed throughout this period of 15 years at 1 million—the average proportion of workers without work fluctuating from 16 percent of the total possible workers in 1915 to 4.7 percent in 1917. And these figures incidentially do not include any of the agricultural workers of the country. A statement published in the press of September 29, 1924, by the Russell Sage Foundation estimated the extent of unemployment in the United States in any one year as running from the minimum of 1 million to a maximum of 6 million, depending upon the general industrial conditions prevailing at the amount.

The committee on elimination of waste in industry of the Federated American Engineering Societies in its report, "Waste in Industry," published in 1921, to which the Honorable Herbert Hoover wrote the forword, further substantiates these facts. It states: "In the best years, even the phenomenal years of 1917 and 1918 at the climax of wartime industrial activities, when plants were working to capacity and when unemployed reached its lowest point in 20 years, there was a margin of unemployment amounting to more than a million men. This margin is fairly permanent; seemingly 1 or more wage earners out of every 40 are always out of work."

Unemployment, as was aptly stated to your committee, may be considered both as a price society must pay for progress, and as a price to be paid for decay. It may be the result of efficient management and it may be the result of inefficient management. Many of the unemployed, in other words, are today out of work because the progress of modern industry, the development of mechanical processes, and the revolutionary changes in methods of manufacture make them no longer necessary for the production of the goods we need. Others, on the other hand, are thrown out of work because of the decay of industries which formerly required them. This is particularly true of the raw-material industries, when they find their source of supply diminishing as well as of industries such as cotton hose and corset manufacturing, where a change in the consumer demand eliminates in turn the demand for the services of labor.

Thus, also, the efficient executive by eliminating wasteful processes or budgeting his output frequently finds that he can secure the same output with fewer workers regularly employed throughout the year than with his former labor force intermittently employed. Here, stabilization leads to regular employment for some and no employment for others. The inefficient executive, on the other hand, unable to meet the competitive demands of the market also adds to the army of the unemployed; bandruptcy and shutdown having the same effect upon the dispossessed worker as displacement by machinery.

Unemployment cannot be considered as a malady which can be attacked with a single remedy. Such unemployment as exists at any one moment may be due to any number of causes, and an attack must be made upon those forces which can at the time be segregated. A considerable amount of unemployment is recurrent. It occurs at more or less regular intervals. Such, for example, is unemployment due to general business depressions and unemployment due to the seasonal ups and downs of industry. Some unemployment is persistent. It is always with us. Thus, men are daily being thrown out of work because of technological changes, financial failures, the movement of plants from one locality to another, and changes in consumer habits. Such unemployment is transitional and requires measures for its alleviation quite different from those which are to be used in coping with the cyclical variety.

I. CYCLICAL UNEMPLOYMENT

The recurrent nature of unemployment has been frequently pointed out by observers of the "business cycle." Some have held the psychology of the businessman as the essential cause of depression; others monetary policy. Still others hold that underconsumption—that is, the failure of the purchasing power of the laborers who form the bulk of the consumers of our industrial and agricultural output to grow as fast as the output of industry—brings about a surplus of goods which cannot be disposed of, and a consequent shutting down of production and business stagnation.

It is doubtful whether any single cause can be singled out as the sole factor in bringing about industrial depressions. They have come with remarkable regularity, and periods of feverish business activity with expansion of plant, speculation, and optimism have been followed by periods of restricted industrial operation, low profits, bankruptcy, and unemployment some 15 times during the past 120 years.

Every business crisis in American history has been characterized by phenomena peculiar to itself. No two depressions have been exactly alike. They have varied in length, severity, and effect. In this respect they have been no different from any other social catastrophe—wars, strikes, or revolutions. Because of their individual peculiarities there has been a tendency to explain each crisis by the distinctive circumstances which prevailed at the time of each depression. One hears of the "Jay Cooke panic" of 1873, "the railroad panic" of 1884, "the Baring panic" of 1890, "the Bryan panic" of 1896. Since the fortunes of Jay Cooke, the Baring Brothers, and Bryan were involved in these crises; these individuals have been associated in the popular mind with their causes. Yet it is quite probable that the crises in question would have occurred at or about these times even if these individuals had not been on the scene.

In spite of their differences industrial depressions have many outstanding features which are common to all. They are part and parcel of that upswing and downswing of business which appears to be the inseparable condition of any competitive system in which activity is guided by price changes. Special events outside of the business world itself may, to be sure, affect the acceleration of the swing, or even cause an abrupt reversal of the trend. Such was the case in 1916 when the rush of munitions orders from allied countries suddenly changed the trend of business conditions in the United States. Likewise special factors may prolong a period of prosperity or hard times, as was the case of the large wheat crop of 1890 which, with the favorable grain prices of that year due to foreign crop failures, is believed to have mitigated the depression of that year and delayed the crisis from 1890 or 1891 to 1893. "But if such a special and disturbing event does not happen, the wavelike movement goes on anyway. Prosperity in time undermines itself, and depression in time brings about recovery and prosperity without the necessary aid of outside disturbing factors."

To illustrate the workings of this tendency it will be worth while to follow briefly the course of the business cycle. Starting, for example, at a period of depression, one finds widespread unemployment, and that orders for new industrial products are, on the whole, few and far between. To secure new orders, prices are pretty generally cut, and every cost of operation is made as low as possible. For a time such activities tend to produce more depression, for in periods of falling prices buyers tend to wait for still further declines. As a result of price cutting, producers thus far able to weather the storm find themselves unable to continue further operation, and their workers are added to the ranks of the existing unemployed. With the purchasing power of these workers cut off, other producers find their markets still further restricted and they in turn are forced to still further curtail their operations. Despite the large supply of labor available and the cheapness of capital, everyone hestitates to undertake new operations. "The industrial machine appears to be stuck on a dead center."

Eventually, however, prevailing stocks of goods tend to become depleted. Since there is usually a greater curtailment of production than consumption, inventories become smaller and smaller. The time comes when stocks must be replenished, and here and there a factory secures new orders. These orders mean the purchase of new raw materials and an increased employment of labor. This in turn means greater purchasing power for certain groups and their expenditures mean an increasing demand for products all along the line. The process is a cumulative one, and the number of industries experiencing increasing demand becomes larger and larger.

At the same time the low cost of construction which characterizes depressions encourages building among those industries such as public utilties which do not usually feel the full force of the business decline. This is particularly true of those industiral firms which cater directly to the household demand rather than to the industrial demand and frequently such enterprises find that depression has cut their operating costs more than their incomes. In such instances they are in a favorable position to provide new facilities for future use. Once building begins anew the producers of the goods used in construction—brick, lumber, cement, structural steel, and the like—experience an increased demand, and soon the transportation and metal industries feel the effects of an improving situation. Each transmits to the other the benefits of its growing prosperity, and all of them, through their payrolls, stimulate the retail trade which in turn adds further stimulus to the industries where the shift in the tide started.

The revival of business begins. It may "fizzle out" when the exhausted stocks are replenished—as it did in 1895—or it may run into a revival and a prosperity movement, which has no real basis excepting the reaction from a depression that itself had no real basis.

During the early stages of business revival, while orders are increasing and employment growing, prices do not rise to any extent. The average businessman hesitates about raising prices until he has sufficient orders to keep his plant fully occupied. Competitive buying of raw materials soon sends up the prices of such goods, however, and the manufacturer finds his production costs going up. The time comes, also, when some manufacturers are willing to risk raising the price of their products even though they may lose some orders. The rise in prices once started, each increase tends to start price advances in other lines. When such advances have become numerous enough to make people expect still others, the very tendency of prices to rise stimulates buying. Speculators, jobbers, wholesalers, and retailers, even consumers, start buying ahead in anticipation of still further advances. Thus stocks of goods begin to accumulate in warehouses and on store shelves.

As the boom continues the rush of orders brings in its trail waste and high-production costs. Large profits lead to the neglect of economies. And the businessman, pressed by orders for prompt delivery, pays little attention to such small savings as may be secured at one point or another. Frequently, too, equipment formerly abandoned as too expensive to run is brought back into operation to meet the growing demand for goods. This means further increases in production costs. High wages, resulting from the large demand for workers, play their part, also, and high overtime rates add their share to the growing cost of production. Again and again prices are raised to meet the encroachment of rising costs upon profits.

Eventually the time comes when the existing equipment of many of the industries is working at capacity and new goods cannot be produced in sufficient quantities until new equipment can be provided. When that time comes, further rises in price add nothing to the existing supply of goods. Indeed, they do nothing more than to increase speculation.

Periods of boom end themselves just as surely as do periods of depression. Occasionally the bankers find themselves overextended and curtail credit. As a result, some firms are forced to contract their activities and use their income to pay off loans rather than to expand production. Sometimes it becomes known that excessive stocks of goods are being held for speculation and a scramble to unload starts prices downward—as was the case with silk, sugar, rubber, and other commodities in 1920.

Once liquidation has started, manufacturers began to find it hard to collect their outstanding accounts. The difficulty of securing funds for payrolls, or the fear that it will be difficult to secure payment for new goods which might be produced, lead business executives to discharge labor. Markets become disorganized by forced sales, and business contracts. Depression spreads to other lines of activity, for the reduced incomes of the discharged laborers curtail their purchases. The contraction of business becomes cumulative. The decline in consumer's demand is reflected in curtailed orders from retailers, and this contraction affects the wholesaler, manufacturer, and the producer of raw materials, all of whom in turn discharge still more workers.

By the time the bottom of the depression has been reached, production has fallen to something like 15 to 20 percent below the peak and to about 8 to 12 percent below the production of fairly good years. The employment of labor in the manufacturing industries may decline by as much as 25 to 30 percent, as was the case between early 1920 and the first half of 1921. During the depression of early 1919 employment fell approximately 15 percent below that of the third quarter of 1918, while in 1914–15 employment was about 10 percent below the average for the peak which preceded.

The decline in employment, it should be noted, is not evenly distributed among all industries. Factory employment during 1921, for example, fell to 76 percent of its former peak. Within the manufacturing industries, however, emploment in the metal and metal products industry declined by 43 percent, while the producers of mineral products, such as chemicals, stone, glass, et cetera, employed 18 percent fewer workers than at the height of activity. Employment in the lumber industry declined 16 percent; in transportation, the railroads decreased their forces by 22 percent; and the mining industry cut its employment rolls by 27 percent.

Every activity, with but the one exception of the hand trades experienced contraction during the depression of 1921. The depression was felt even in the public and professional services, where employment fell by 2 percent, and in the field of domestic and personal services it declined by about 3 percent. Taking labor as a whole, the depression of 1921 forced out of employment approximately one-seventh of the working population, or approximately 4 million workers who had had jobs at the crest of the 1920 boom.

If one measures the decline of employment resulting from the depression of 1920–21 in terms of the hours actually worked, one finds that available employment was even more restricted than appears above. The maximum decline for all industries amounted to approximately one-sixth of the hours formerly worked, while the contraction in working time in manufacturing industries was equal almost to one-third of the time formerly worked. The actual hours worked in the metal trades was cut to exactly one-half of that of the peak of the boom, and in mining and railroading, and in the food, drink, and tobacco industry to 70 percent. Omitting agriculture, commerce and trade, finance, and the personal-service trades, the work available for the wage earners of the country during the worst part of the depression, when measured in hours, was about 20 to 25 percent less than at the height of business activity in 1920. In short, not only was there a large contraction of employment, but even those who did have jobs had less opportunity to work than previously.

The depression of 1920–21 was in many respects similar to others which preceded it. Testimony submitted to your committee placed the cost of this depression to the American people at something like $9 billion. It was the general opinion of those witnesses qualified to pass judgment upon this subject, that although no definite means were available for entirely eliminating the recurrence of industrial depressions, much can be done to mitigate and shorten them once they do take place. The measures suggested toward this end are discussed at a later point in this report.

II. SEASONAL UNEMPLOYMENT

To say that all industries are seasonal would hardly be an exaggeration. It would be most difficult to find an industry which showed an even distribution of production and employment throughout the year.

An individual plant, here and there to be sure, may show steady and regular employment from month to month, but such plants are exceptions and by no means the rule in any industry. Some industries, like some plants, show less fluctuation in employment than others, but none are free from seasonal ups and downs. The difference is primarily one of degree. In northern areas industries like agriculture, various types of construction, particularly highway and railroad, are largely at the mercy of the weather. The canning industry is dependent upon the maturing of the agricultural crops for its periods of operation. Coal mining finds that the demand for its product is higher in periods of cold weather than at other times. The manufacture of clothing varies with changes in the calendar seasons and with changes in fashions.

What seasonal changes in demand mean to industry is well illustrated by the men's clothing industry, where an investigation of eight representative plants in three large markets showed that over a period of 3 years the equipment was utilized on the average but 69 percent of the possible working time. One plant was used 58 percent of the time, a condition which might safely be said to characterize hundreds of others. Similar instances could be cited in the shoe industry where sales in some months of the year run as high as 250 percent above the average and in others as low as 87 percent below.

In printing the case of 1 large and important plant can be cited which employs 2,700 people in rush seasons and drops to 1,500 in dull. Another printing plant employs 1,800 workers in good seasons and discharges 1,100 twice each year during periods of slack work.

Even the manufacture of such a product as writing paper is seasonal, the maximum demand centering about the month of March with another peak about October, and the lowest demand during July and August. The production of other office supplies, such as record books, safes, and labor saving devices, furnishes a similar picture of irregularity, with the peak in October, and 4 slack months from May to August. One might go on with innumerable examples citing cases of products varying from soap and macaroni to automobiles, plate glass, cast-iron pipe, women's hosiery, bathroom fixtures, and fertilizers. All are plagued with the curse of irregular demand, irregular production, and irregular employment for their laborers.

A picture of the unemployment condition in some of the more important industries in the year 1925[1] shows a most irregular course, deflected first one way and then another by the exigencies of seasonal demand. Below are presented in tabular and graphic form the fluctuations in the number of wage earners employed in the larger industries from month to month in that year.

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[1] The year 1925 has been selected for two reasons. First, it is the latest year for which we have census data on employment, and, secondly, because 1925 was a fairly good year industrially.

Wage earners, by months, for the United States, for individual industries, 1925 [1]

Industry	Number employed on 15th day of month or the nearest representative day											
	January	February	March	April	May	June	July	August	September	October	November	December
Boots and shoes, other than rubber	202,793	211,439	216,493	209,907	200,734	191,822	200,349	213,282	216,565	216,330	204,195	199,992
Bread and other bakery products	156,359	156,968	156,869	156,888	158,381	162,185	162,176	161,040	163,892	165,547	163,224	161,403
Car and general construction and repairs, steam-railroad repair shops	438,141	438,308	434.680	427,036	419,800	420,597	420,062	416,961	417,119	421,134	423,527	425,441
Clay products, other than pottery, and nonclay refractories	86,983	87,992	94,829	104,066	110,019	112,132	112,636	111,354	109,368	105,939	100,437	97,569
Clothing, men's, not elsewhere classified	169,554	174,807	177,014	172,456	165,319	170,566	173,318	177,809	180,839	180,851	176,298	173,148
Clothing, women's, not elsewhere classified	124,444	135,132	140,694	134,931	121,702	112,771	110,795	121,164	132,364	135,719	127,946	119,928
Cotton goods	463,261	455,290	457,068	454,330	448,106	439,520	426,422	426,015	426,767	444,511	453,059	457,860
Electrical machinery, apparatus, and supplies	241,194	232,805	226,724	222,257	220,369	218,717	224,454	233,902	248,069	265,006	273,418	272,136
Foundry and machineshop products, not elsewhere classified	376,830	384,145	390,803	395,934	398,400	399,698	400,242	399,650	401,675	406,290	407,435	412,947
Furniture	178,307	179,996	180,369	177,107	173,304	171,421	171,011	176,305	184,058	191,009	194,569	193.281
Iron and steel: Steel works and rolling mills	380,453	382,285	385,354	374,872	366,824	360,397	354,053	354,567	363,605	369,580	375,029	381,694
Knit goods	176,892	182,280	185,296	186,059	186,974	186,554	183,775	185,753	189,687	193,748	193,439	189,552
Lumber and timber products, not elsewhere classified	476,002	482,894	485,915	482,968	483,630	474,952	464,382	468,237	471,247	473.592	466,591	457,570
Motor vehicle bodies and motor vehicle parts	190,552	196,151	208,660	224,970	235,470	226,991	227,727	230,718	246,847	256,117	253,688	242,695
Motor vehicles, not including motorcycles	167,088	170,084	184,952	200,398	202,966	198,924	199,092	197,807	211,436	220,384	215,162	204,444
Paper and woodpulp	123,670	124,441	125,830	125,353	123,670	122,282	122,424	122,068	122,555	124,251	124,752	124,810
Printing and publishing, book and job	134,870	134,696	134,024	132,810	132,495	130,398	130,874	131,848	132,287	133,642	135,008	136,847
Silk manufactures	123,582	126,709	129,107	129,551	130,591	130,564	132,589	135,166	136,614	137,882	138,908	138,846
Slaughtering and meatpacking, wholesale	131,970	125,822	119,033	113,193	114,710	118,053	118,835	116,957	117,631	119,668	123,688	125,501
Tobacco: Cigars and cigarettes	116,675	117,551	116,515	112,360	113,648	113,117	114,478	115,635	117,877	121,463	123,609	122,374
Worsted goods	107,574	105,849	100,702	95,719	90,977	88,284	89,439	93,780	96,007	100,247	104,987	104,448

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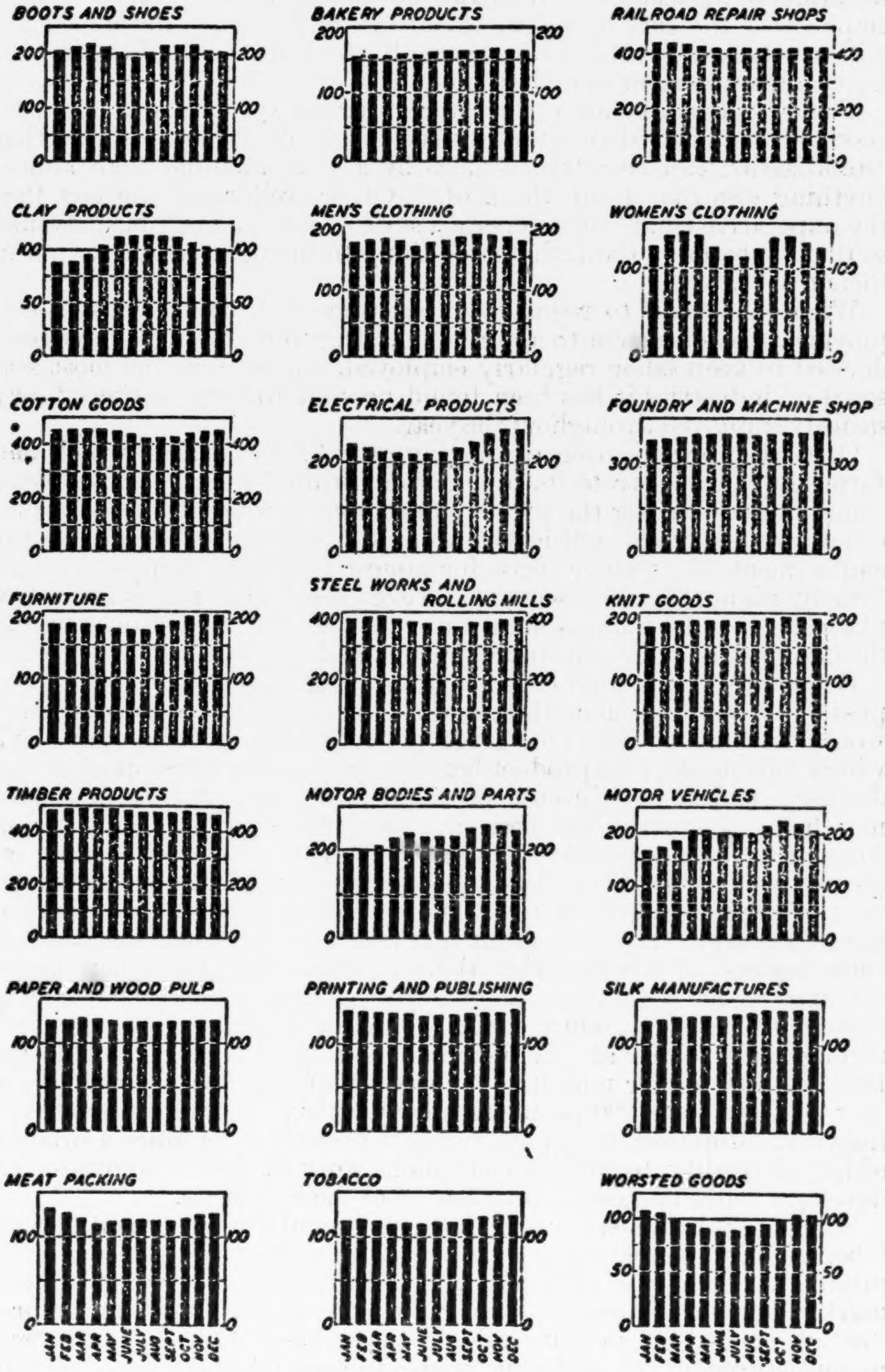
[1] Data from U.S. Department of Commerce, Biennial Census of Manufactures, 1925, pp. 1208–1219

NUMBER OF WAGE EARNERS EMPLOYED, BY INDUSTRIES, 1925
(IN THOUSANDS)



It was generally held by those who appeared before your committee that seasonal unemployment can be in large part eliminated if conscientiously attacked by American business. Witness after witness emphasized the fact that once American businessmen developed the will to attack the problem of seasonal fluctuations much of the irregularity of employment could be eliminated.

The president of one of our large railroad systems, who has successfully regularized the employment of his labor forces, stated that "stabilization can be attained more by a state of mind than almost anything else that I can think of." Others reiterated the fact that the imperative thing was to create a state of mind among businessmen so that "it becomes the fashionable thing to introduce stabilization in their plants."

Where the "will to regularize" has prevailed, fluctuations in employment have been cut to a minimum. Ingenious methods have been devised to keep labor regularly employed, and even in the most seasonal of industries it has been found possible to keep workers fairly steadily employed throughout the year.

One large organization employing over 3,000 workers, which had formerly to concentrate its production within 7 months of the year, found, after exerting the proper effort, that it was possible to secure orders for its goods sufficiently far in advance to make possible the employment of its labor force for almost 50 weeks each year. This firm, by giving special discounts and even special low prices for orders placed 3, 4, and 5 months in advance, had no difficulty in overcoming the hesitancy of merchants toward placing advance orders.

Other firms have found that by producing staples for stock it was possible to employ labor during those months when normally there would be little to do. One large packing firm in Brooklyn, N.Y., which sells most of its product between the months of September and January, had found through past experience that during the last 4 months of the year it was necessary to increase the average working force of the first 8 months by over 600 percent. This firm, which employed an average of 200 people between January and September, used to employ from 1,300 to 1,400 people during the months September to January. It was thought that this situation could not be overcome because of the fact that their product was highly perishable. An experiment with so simple a device as a cold-storage warehouse showed that their product could be produced and packed regularly throughout the year and delivered as the market required during the late fall and winter months. As a result of this discovery this firm now employs some 800 people regularly throughout the 12 months of the year. Moreover, they have found it possible to produce a product of higher quality, to furnish continuous work to their employees, and develop a better morale in every branch of their business.

Some organizations, in order to furnish regular employment to their laborers, have developed sidelines which dovetail with their regular products. Thus, for example, one manufacturer of shovels, whose market demands shipments during the summer, has taken on the production of sleds, which are sold in the winter. One of our largest manufacturers of ink and glue, unable to keep labor employed during the winter months because weather conditions made it impossible to ship these products because of freezing while being transported, recently took on the production of pens and pencils, which could be moved during those months when their main products could not.

A large canner of vegetables has found it possible to keep his forces regularly employed by developing such sidelines as macaroni, chop suey, and other products which could be made all the year round in contrast to most concerns who operate only during the vegetable harvest season. Instances were cited of firms which trained their workers for supplemental jobs so that when work in one division of the factory was slack employees could be transferred to other divisions. Some organizations have what are known as flying squadrons which are shifted from one department to another as the demand for labor varies. Many firms have reserved repair work, cleanup work, and extension work for periods of seasonal slack and in that way laborers who would otherwise be unemployed are kept steadily at work from month to month. One large automobile manufacturer has taken up the production of airplane motors as a means of filling in slack periods when the automobile demand is low. Some of the railroads have found it possible to shift their trackworkers from north to south and vice versa with the changing seasons and thus give them steady employment throughout the year.

One large steel manufacturer testified that with a diversity of products and a number of scattered plants, it is possible to shift orders from one plant to another as the demand for the different products varies. In this way employment is regularized and the tendency to operate some plants with maximum forces and overtime work while others are running part time or entirely shut down is eliminated. Some organizations, too, have set aside certain weeks in the year as vacation periods, these weeks being the ones in which the demand for their products would normally be very small.

The determination to keep labor regularly employed has led to the discovery that many things can be done during what were considered necessary slack period which had never before been attempted. Thus, for example, it had always been the policy of the railroads to law their rails only in the summer months. The determination of some of our railroad systems to keep their trackmen steadily employed led them to experiment with laying rails in winter. They found that rails could be more cheaply and efficiency laid in the winter than in the summer months and as a result these systems are doing most of their rail-laying work in winter and using the same forces for replacing ties, ditching, and clearing the right-of-way in the summer. The railroads found also that by budgeting their equipment repairs it was possible to keep most of the men in the mechanical department steadily employed throughout the year. Statistics presented to your committee by two large railroad systems showed that the labor turnover in this line of work, which formerly averaged more than 25 percent, has been reduced to less than 10 percent.

Even in the building trades, where it has always been assumed that construction must be concentrated in the summer months, it has been found possible to eliminate seasonal variations in part.

Testimony furnished to your committee shows that where efforts have been made to secure winter contracts through advertising and salesmanship, it has been found possible economically to construct buildings in the winter months. The advantages of winter construction are that the owner of an industrial plant may start production in March or April, compared with September or October, where building is restricted to the summer months. Moreover, the profits on production during the 5 or 6 advanced months frequently offsets the extra cost of cold-weather building.

In many cases it has been found that cold-weather building expenditures are negligible, or even a minus quantity. Winter construction usually makes possible the advantageous purchase of building materials and furnishes an opportunity to select the highest grade of mechanics and carpenters at times when many are seeking employment. It has been found also that building costs can be further cut, if construction takes place in the winter months, because owners of equipment, such as trucks, steam shovels, etc., and contractors who furnish plastering and painting, being anxious to procure work, are apt to cut their profits to a minimum during this period.

Winter construction requires temporary heat and enclosures. It requires also careful planning so that interior work may be reserved for the days when it is impossible to do outside work. Contracting firms who have sought winter construction contracts have found it possible easily to meet the requirements of changing weather conditions. As a result, some of them have had enough work to keep their home office organizations intact during the winter months, and some have been able to keep their field forces up to a large fraction of their normal summer organizations.

It was the testimony of persons in the construction industry that the public can be educated to the feasibility and economy of winter building, and the consequent elimination of the long periods of unemployment, which have for so many years plagued the workers in the building trades.

The significant thing about the regularization of employment and the elimination of seasonal variation is the fact that wherever it has been tried it has been found highly profitable. Without exception every business executive who testified before your committee stated that regularization of employment had brought with it decreasing costs per unit of output. Though no definite data was secured showing just how large were the savings derived from the stabilization of employment, the fact was nevertheless emphasized that benefits accruing to organizations which had undertaken such a program have been considerable.

A concerted attack by American industry upon the problem of seasonal unemployment would, in the opinion of one large employer of labor who has for 10 years successfully coped with the problem of regularization, result in the elimination of at least one-half of the unemployment which continually prevails in the United States. Only a few organizations in this country have thus far had the vision and courage to undertake the task. Less than 100 of the many thousand firms in the United States have developed any definite stabilization policy. Here is a field which must be cultivated by American business. It is not only an humanitarian problem. It should be approached, also, from the point of view of business efficiency and lowered production costs. Regularization has been found to be a profitable venture by those who have tried it. The American business executive must be made to realize the advantages which will accrue to him from such a program.

III. TRANSITIONAL UNEMPLOYMENT

During the past year or two much has been said in the press and in public discussion about the great amount of unemployment that has resulted from technological changes in industry. Machinery and discovery are every day displacing men whose lives have been spent in developing the skill and ability necessary to their crafts. Efficiency methods which aim at eliminating wasteful and unnecessary processes are daily eliminating workers from industry. At the same time the amalgamations and mergers which have recently been going on at a pace faster than ever before in history have resulted in closing down factories and in moving plants and warehouses from one part of the country to another. The declining market for certain products, resulting from the changing habits of consumers, have also led to the shutting down of plants. Bankruptcy also is taking its annual toll of employers of labor, a tendency which we must assume will go on forever in a Nation which attempts to give full play to individual initiative and relies upon free competition to regulate its economic activity.

All of these forces make for unemployment. In good times and bad times they are relentlessly at work. Under the accepted competitive theory it is assumed that they eventually lead to greater efficiency, lower production costs, and lower prices to the consumer. They are part and parcel of progress.

The question arises, however as to whether the laborers who are thrown out of work as a result of these movements in our economic life should be made to pay the price of such progress. Is it just that society should benefit at the expense and suffering of the dispossessed worker?

Instances were cited to your committee of cases in the steel industry where—

> Seven men now do the work which formerly required 60 to perform in casting pig iron; 2 men now do the work which formerly required 128 to perform in loading pig iron; 1 man replaces 42 in operating open-hearth furnaces.
>
> In machine and railway repair shops 1 man replaces 25 skilled machinists with a gang of 5 or 10 semiautomatic machines; 4 men can now do in 3 to 7 hours what it formerly took 8 men 3 weeks to perform in repair work on locomotives, due to the oxyacetylene torch. Fifteen years ago it took 15 to 30 hours to turn one pair of locomotive tires; now it takes 8 hours to trun 6 pairs with the same number of men by use of modern processes.
>
> A brickmaking machine in Chicago makes 40,000 bricks per hour. It formerly took one man 8 hours to make 450.
>
> The most up-to-date automatic bottlemaking machine makes in 1 hour what it would take more than 41 workers to make by hand in the manufacture of 4-ounce oval prescription bottles. In 25- and 40-watt electric bulbs the man-hour output of the automatic machine is more than 31 times that of the hand process.
>
> In New York from 1914 to 1925 the number of workers in the paper-box industry decreased 32 percent, while the output per wage earner increased 121 percent.

Thousands of skilled musicians with a life's training behind them are being thrown out of employment by the advent of the talking movie. In the field of news transportation the Simplex and the Multiplex machines have eliminated the need for trained telegraphers and today by the mere process of typing a message at the sending office, the message is automatically printed at the receiving office. Many thousands of trained telegraphers have been made unnecessary during the past few years as a result of this new device. In the printing trades new inventions in typesetting threaten to make possible the setting of type in innumerable offices scattered as many as 500 miles away by the manipulation of keys in a central plant.

All of these developments ultimately lead to cheaper goods for the consumer. Eventually too, they may stimulate the demand for goods sufficiently to make once more necessary the services of the workers they immediately displace. But in the meantime the dispossessed laborer has to bear the burden of these changes through loss of employment, lack of income and lower standards of living.

To the contention that the "newer" industries such as the manufacture and distribution of artificial silk, radios, automobiles, oil products, motor accessories and other "new" products, are absorbing the jobless workers it must be answered that the process is a slow and painfully prolonged one.

An investigation recently made by the Institute of Economics of the Brookings Institution reveals that most of the displaced workers have great difficulty in finding new lines of employment once they are discharged. A survey of some 800 workers in 3 industrial centers revealed that the newer industries are not absorbing the jobless as fast as is usually believed.

Almost one-half of the workers who were known to have been discharged by certain firms because of curtailment in employment during the year preceding were still without jobs when interviewed by Institute of Economics investigators. Of those still unemployed over 8 percent had been out of work for a year, and about one-half had been idle for more than 3 months. Among those who had succeeded in finding work, some had had to search for jobs for over a year before finally being placed. More than one-half of those who had found jobs had been in enforced idleness for more than 3 months before finding employment. Only 10 percent had been successful in finding new jobs within a month after discharge.

The new jobs, moreover, were usually secured at a sacrifice in earnings. Some workers, to be sure, were fortunate enough to find employment which paid higher wages, as was made evident by the fact that about one-fifth of them were making more money on their new jobs than before discharge. Forty-eight percent, however, were receiving lower wages and about one-third were earning just about the same amount as they formerly did.

And what kind of jobs did these men finally secure? Trained clothing cutters with years of experience had become gasoline station attendants, watchmen in warehouses, timekeepers in steel plants, and clerks in meat markets. Rotary press operators were pressing clothes in tailor shops. Machinists were selling hosiery for mail-order houses. Welding machine operators had become farmhands, and skilled woodworkers were mixing salves for patent-medicine manufacturers. A significant number of men admitted frankly that after some months of enforced loafing they had taken to bootlegging.

It is evident that a large number of the workers now being displaced from industry are being forced into unskilled trades at a sacrifice in earnings and a consequent lowering of their standards of living. At the same time they are being made to bear the burden of unemployment, for which they are in no way responsible and over which they have no control.

It was the opinion of those who testified before your committee that it is the duty of the State to provide the machinery for easing the burden of the transitional unemployment which prevails. Society should do everything in its power to bring the jobless worker into touch with available employment. Means should be made available which will cut down the unemployment period to a minimum. For this purpose an efficiently organized and administered employment exchange system and some form of unemployment insurance is urgently required.

IV. MACHINERY FOR ALLEVIATING UNEMPLOYMENT

(a) *Employment exchanges*

With the exception of the short period during which we were engaged in the World War, the United States has never had a coordinated system of employment exchanges. The U.S. Employment Service, which was hastily thrown together in 1918, was organized primarily to help those industries which had been crippled by the loss of manpower, rather than to help workers secure jobs. In spite of its weaknesses, however, the Federal Employment Service rendered great aid to industry and was of help in bringing workers and jobs together. A countrywide organization was established in a very short period of time and, within 9 months, more than 800 offices were functioning.

In order that employers, as well as employees, and the public might be educated to the value and necessity of labor exchanges, State advisory boards and community labor boards were established throughout the country to act in an advisory capacity to State directors and local exchanges. Employers and workers were equally represented on these advisory boards. It was contemplated that questions of policy should be determined in conjunction with these committees and that through their activities the cooperation of both labor and employers could be more readily secured. Unfortunately there was little opportunity to test the value of this joint administration.

The U.S. Employment Service was regarded as strictly a war measure which should be promptly scrapped after the emergency was passed. Therefore, early in 1919, funds for the U.S. Employment Service were curtailed. This necessitated a drastic reduction in offices supported by Federal aid. By October 1919 the purely Federal offices were discontinued. Since then the Service has functioned primarily as a means to coordinate the activities of State and municipal offices and, whenever possible, to encourage the extension of these services.

In no true sense is there a national employment service in the United States today. The nine district offices into which the United States is now divided collect information about employment and industrial conditions which is published monthly in the Industrial Employment Bulletin. This information, however, is of a narrative type and confines itself to general statements as to conditions. No quantitative data are publish regularly except the monthly reports of the placement work of the employment bureaus cooperating with the U.S. Employment Service.

No accurate evaluation of the U.S. Employment Service as an industrial or social institution operating on a national scale can be made from the war experience. It was created, flourished, and declined during the period from January 3, 1918, to October 1919. As was frequently pointed out during the discussions over its continuation, the service had been a military not an industrial proposition.

Establishment of public employment exchanges has been for two decades included in every comprehensive program for alleviating unemployment. As far back as 1916, one employment authority expressed the opinion that "we need no more investigation commissions to tell us that the first step in any program dealing with unemployment must be to organize a national system of labor exchanges."

That preliminary step has not yet been taken. In 1921 the President's Conference on Unemployment again recommended the formation of a national system of employment bureaus. Later this recommendation was endorsed by the committee which prepared for Mr. Hoover a special report on business cycles and unemployment. The conclusion of the committee, after a consideration of possible types of employment service was that "the greatest promise seems to be in the development and raising to a high standard of efficiency of a national system of employment bureaus."

Due to a better understanding of our industrial problems, the place of employment offices in preventive or remedial programs for unemployment has been more correctly defined. Their limitations as well as usefulness have been recognized. No advocate of public employment offices, however enthusiastic, expects that new jobs will be created in the face of general depression, nor that technological changes will be delayed, or seasonal layoffs prevented through their efforts. Neither is it expected that employers' requisitions for labor will be filled immediately in times of labor shortages. Employment technique may anticipate and prepare for industrial changes but can not determine them.

No longer are public employment offices regarded as political pastures nor as dispensers of respectable relief in the form of jobs to unemployables. Neither are they to be regarded exclusively as high-grade placement bureaus in competition with private agencies.

It is generally felt, however, that a national service would make a significant contribution to the solution of unemployment. An industrial service organized on a national scale, which provides comprehensive, timely knowledge of the industrial situation both local and national, and in addition facilities contacts between the unemployed and the opportunities for work, is gradually becoming the accepted idea of employment exchanges.

By the title, a national system of employment exchanges, the essential elements of the mechanism required are suggested. A public service furnished impartially to both employers and employees, without charge to either, is the basic idea. It must be national in scope, a coordinated service which will organize our entire labor market which is national, not local, in area. No such system exists at present although employment offices by the thousands operate in the United States. Working arrangements by which information is exchanged or labor shifted in response to changing requirements are lacking.

Several States have established systems of public employment offices, but even if adequate intrastate facilities were provided there would be no organized labor market; for States are political, nor economic, divisions. A correlating mechanism, which will organize our labor market throughout the country, and a further development of local employment offices are the major considerations.

A mechanism, national in scope, which will organize our labor market effectively, demands administrative technique of the highest order. However, to assume that the setup of adequate machinery and the administrative problems which are presented are not insuperable obstacles is not to beg the question either of the feasibility or desirability of public employment offices. Canada, with a Federal Government similar to ours, established a national employment service in 1918. Each province maintains its own system of offices with a intraprovincial clearing system, while the Dominion Government contributes to the local service, coordinates the activities of the provincial offices, and provides a national clearing system for the transfer of labor between provinces and for the exchange of information.

Great Britain has operated a national system of labor exchanges since 1909. Here, the problem of dual authority of State and Federal Governments does not arise, nor is there a comparable area to be organized. However, both the experience of Great Britain and Canada has tested the workability of employment mechanery on a national scale. In addition, the success of certain of our State systems justifies the confidence in our ability to resolve the administrative difficulties.

The disorganized conditions existing in our labor market were emphasized before your committee by several witnesses. Orderly marketing, a familiar enough term in commodity market, has not been applied to the distribution of labor. Recurring surpluses and shortages characterize our labor market, as they do our commodity markets. As yet, no machinery has been developed to adjust these irregularities. A surplus may exist in one locality, or even in one factory, while men are needed in a similar capacity nearby. Gradually, industrial plants have centralized their hiring and discharging in one department to effect economies and stabilize their labor forces. This princple is yet to be applied within our labor market as a whole.

It is this organization of the labor market throughout the country that is a primary function of public employment exchanges. The expression "the labor market," in this connection refers not to the particular places where labor contacts are made but rather to "the supply of, demand for, or types of labor present or sought in the several areas." In this sense we have our local, State, regional, and national markets. In the final analysis, however, our labor market follows national boundaries and includes our total working population. This does not mean that we are divorced from an international labor market, but only that the international aspects cannot be discussed here.

In this capacity of correlating the requirements of the two parties in our labor market, those of employers and those of workers, the public employment offices must function in two different capacities. First, they must serve as information centers, or intelligence bureaus, through which complete data on employment and the industrial situation are secured. Second, they must act as effective placement bureaus utilizing the information which they have acquired to reduce time lost between jobs.

No provision has been made as yet for this necessary data on the numbers out of work. There is no authoritative answer to such questions as: How many are unemployed at any particular time? Where are they? What is the composition of the group as regards age, sex, occupations, and industries represented, etc.? No completely satisfactory answer to these questions can be gained, except through a systm of registration of those who are without work and looking for jobs. Compulsory registration, in connection with the administration of unemployment insurance, gives a reliable measure of the numbers unemployed at a given time and indicates where unemployment is most prevalent. Classification of these data by occupations, by industries, as well as by sex and geographical areas provides the basis for further action in providing jobs.

Voluntary registration, while furnishing less reliable results, serves the same purpose and is more in harmony with American traditions. To the extent that the unemployed make use of organized services to secure jobs, employment exchanges furnish the machinery for registering those out of work. Obviously, the completeness of the data and, consequently, its potential value will depend upon the extent to which an adequate employment service is utilized.

Labor requirements of employers may be and normally will be recorded with the agency best equipped to furnish the requisite labor. Public employment offices which pool the knowledge of available labor and develop the technique of placement and clearance so that employers' needs are promptly met may be expected to become the central machinery through which our labor market is organized. To be sure, the establishment of employment offices carries with it no pressure by which employers are required to record their needs with local offices. However, the provision of facilities for contact with available labor, the presence of a staff competent to direct this labor into the proper channels and to compile and analyze pertinent data concerning the labor situation, and the educational propaganda as to the value of the service to employers justify the expectation of increasing cooperation on the part of employers.

Management, while recognizing the limitations of public employment exchanges, readily grants the need of such an agency: "It is now urged as essential to the efficient operation of industry rather than as a means for relieving the misery of the unemployed; it is as necessary in the labor field as traffic control is in city life." As this attitude tends to prevail employers will make increasing demands upon the public service and thus widen its opportunities for placing applicants.

Evidence made available to your committee revealed the fact that every important civilized nation has a national system of employment exchanges. Indeed, the establishment of a system of free public employment agencies was made incumbent upon those countries which were parties to the labor treaty drafted at the Washington International Labor Conference in 1919. Twenty-three countries at the present time have adhered to this requirement by ratifying the draft treaty, and together they have now in operation close to 5,000 national employment offices.

During recent years it has been the accepted policy in the United States to have employment exchanges run by the individual States and municipalities. Such appropriations as have been made by the Federal

Government—$200,000 in the last fiscal year—have been mainly expended in subsidizing State offices. The farm labor division of the Federal Employment Service, with temporary offices at strategic points in the Grain Belt during the harvest season, is the only instrument which approaches a nationally organized employment service. Beyond that there are 170 State and municipal public employment offices in the country. These offices vary in number from 1 in each of 11 States to 17 in the State of Illinois. Thirteen States have no public employment offices whatever. State appropriations for these offices vary from $900 in Wyoming to $231,360 in Illinois. The total appropriations of all the State governments aggregate $1,203,906.

Available funds for the 170 offices in the 35 States and the District of Columbia, from all sources and numbers of offices maintained the last fiscal year[1]

States	Number of offices	Cash available[2]	States	Number of offices	Cash available[2]
Arizona	1	$4,960	Missouri	4	$32,640
Arkansas	4	5,880	Nevada	1	3,070
California	12	85,894	New Hampshire	2	4,760
Connecticut	7	51,020	New Jersey	6	83,496
Delaware	[3] 1	----------	New York	11	195,502
District of Columbia	1	14,615	North Carolina	6	21,600
Georgia	1	2,100	Ohio	11	145,600
Illinois	17	231,360	Oklahoma	4	9,780
Indiana	5	21,200	Oregon	5	13,495
Iowa	3	6,600	Pennsylvania	14	81,360
Kansas	5	15,240	Rhode Island	1	4,900
Kentucky	1	1,560	South Dakota	3	1,260
Louisiana	3	1,140	Tennessee	1	1,560
Maine	1	1,420	Vermont	1	1,238
Maryland	1	4,100	Virginia	5	11,720
Massachusetts	4	68,810	West Virginia	1	1,640
Michigan	11	35,397	Wisconsin	10	67,960
Minnesota	6	43,127	Wyoming	1	900

[1] "Financing the Public Employment Service," American Labor Legislation Review, December 1928.

[2] Includes cash allotted from the Federal Government to various States.

[3] Maintained by the city of Wilmington, the Federal Employment Service, and various civic organizations.

It should be self-evident that a country as large as this, with a wage-earning population numbering over 30 million, cannot be effectively served by 170 public employment offices. There are, to be sure, several thousand private employment offices in the country, but it is the consensus of the best informed opinion that these are open to grave abuse. Private agencies have been known deliberately to send unfit men to certain jobs in the knowledge that the workers would not be kept on, thus making it possible in a short while to secure a second fee from the individuals placed. One Pennsylvania licensed agent was recently reported to have made an arrangement by which a foreman in a factory was paid $5 for every employee taken on through this agent and $2 for every man discharged. The men were kept on the job a week, they were paid every Friday, and the expectation was that they would return to the agent for a new job the following Monday. This foreman made a commission of $7 on every laborer passing through his shop in this way. Other cases can be cited where fees have been split with foremen who purposely discharged men and took on others. Time and again men have been known to have been shipped to jobs which did not even exist.

Nor is it possible to control the fees charged by the employment agencies. Legislation for this purpose, passed by various States, has recently been declared unconstitutional. Today there is very little control which can be exerted by State governments over the private employment agencies in their jurisdiction.

The present Federal employment service is in need of thorough reorganization and considerable expansion. An efficiently organized and well-coordinated employment service would go far to accelerate the absorption of workers thrown out of employment by changes in industry.

If the employment service is to continue to remain a function of the individual States, it should be expanded and brought up to a higher standard than now prevails. Through Federal aid and Federal cooperation it should be coordinated in such a way as to make possible the transference of workers from one locality to another with a minimum of friction. To make this possible, it is essential that there be at the head of the Federal service a trained and experienced director, who has the confidence of both employers and employees. For such a person there must be available a salary which is adequate to attract the most efficient talent.

There should be organized by the Federal Government a series of district clearinghouses, which will coordinate the activities of the State offices in various sections of the country in a manner similar to the present organization of the Federal Reserve districts. The present system of granting varying amounts by the Federal Government to one State or another should be abolished, and the grant made to each State should bear a definite relation to the amount which that State appropriates for its employment service. The prerequisite for the receipt of Federal aid should be that a State shall meet certain definite requirements and standards as promulgated by the Federal Director. These should concern themselves with the type and training of the staff employed, the maintenance of certain statistical records, cooperation with the Federal clearing offices, and the office facilities provided.

If an employment service is efficiently to perform its designated functions, it must command the confidence of those whom it is organized to serve. In the past many employers have been unwilling to avail themselves of the services of public employment exchanges and have preferred to use other means for securing their labor supply. Likewise, many employees have hesitated to use the existing public exchanges because of the fact that they had knowingly sent workers to plants involved in labor disputes. To secure the confidence and goodwill of both employers and workers, it is suggested that there be created a Federal Advisory Committee made up of equal numbers of representatives nominated by employers and by workers to cooperate with the Federal employment Director in the formulation of administrative policies. Similar representative bodies for each State, and even for each municipality which has a State employment office, should be one of the requirements in every State which secures Federal aid.

To insure continuity of service and to remove the Federal Employment Service from the realm of political preferment, it is suggested, also, that every member of the service be placed under civil service regulations. It is advisable, also, that all executive heads should be selected only after an oral examination conducted by the advisory committees mentioned above. Under such a system there will be an assurance that the person selected will have not only the requisite experience and training but also those personal qualities which frequently make for failure or success in administering employment work. The individual States, furthermore, should be urged to place within the civil service such employees as they have in their employment exchanges. This, too, may be made a prerequisite to Federal aid.

(*b*) *Adequate statistics of unemployment*

Recent discussions of the unemployment problem have brought into the limelight more sharply than ever before the fact that we know very little as to the extent of unemployment in the United States. Everybody who has looked into the problem has his own pet estimate. The figures run from about 1,500,000 in some estimates to 8 million in others.

In spite of the importance of regular employment to the national welfare, in spite of the effects of unemployment on our citizenship, and upon our industrial welfare, there exists no national or State machinery for collecting facts concerning this problem. In the words of the committee on elimination of waste in industry of the Federated American Engineering Societies, "the amount of idleness or unemployment in industry can only be evaluated through rough estimates." President Harding's unemployment conference in 1921, a conference made up of all of the leading idnustrial leaders of the Nation was unable, in spite of all of the combined facilities of those present, even approximately to measure the number of unemployed. Estimates ran from 4 to 7 millions. It is said that the figure actually determined upon by this conference was nothing but a conglomerate of the prevailing guesses and that the final figure agreed upon was the result of a majority vote of those present.

In the early part of 1928, when unemployment was being widely discussed, the Maryland State Federation of Labor made public the fact that according to its estimates there were 75,000 persons out of work in Baltimore. In reply to this statement the Baltimore Association of Commerce announced an estimate of its own, which placed the maximum unemployed at 33,000. A census made in the same month by the Maryland Commissioner of Labor and Statistics placed the number at 15,473. The tremendous difference between these three estimates gives an excellent picture of the State of our unemployment figures. Behind each of them was a judgment which apparently had some basis in fact and against all three of them criticism has been leveled.

The situation in the United States as to the State of our unemployment statistics has recently been well described by a British journalist: "In no country is the art of the statistician so highly developed. He teems in the banks, the universities, the innumerable academic or social foundations. He will tell you to the last decimal point how many yards or tons of every conceivable commodity the factories have produced, the railroads have carried, and the public has bought. But he does not know the number of unemployed."

It should be clear from the above that there are no scientifically acceptable statistics of unemployment in the United States today.

Several attempts at their collection have in the past been made by the Bureau of the Census, but these were made prior to the World War. The census of 1890, 1900, and 1910 included figures on the number of people who had no jobs on the corresponding census dates. The figures for the latter year were never published, the reason given to those who pressed for their publication being that the late date of their tabulation made them valueless. It was stated, moreover, that the enumerators had failed to distinguished between those who were actually unemployed and those who, like schoolteachers, were not working at the specific time, but, nevertheless, were not in fact out of a job. The shortage of funds as well as the pressure of work which came with the declaration of war were also given as reasons for not publishing the unemployment figures.

The most comprehensive collection of data concerning the status of employment in the United States is collected and published by the Bureau of Labor Statistics of the U.S. Department of Labor. These figures are not, however, figures of unemployment. They are figures which show the extent of employment. The distinction between these two types of data should be clearly borne in mind. Unemployment statistics cover those who do not have jobs. The figures published by the Bureau of Labor Statistics and by the departments of labor of the few States which have done anything along this line show the number of people who have jobs. To be sure, figures on employment are both necessary and valuable. If they comprise a sufficiently large and representative sample of the working population their continuous collection will throw considerable light upon the number of persons employed in industry and will show which industries are growing and which are contracting. But the fact that they show, for example, that employment is contracting does not necessarily mean that unemployment is increasing. Nor does the fact that they show employment is increasing necessarily mean that unemployment is decreasing.

Workers are constantly leaving industry and going into business for themselves. Some are retiring and living on their past savings, or on the income of others. Some leave industry and go to schools, colleges, and universities. Theoretically, unless our employment figures cover every branch of production and distribution it would be quite possible for employment in the major industries of the country to be declining, and at the same time have the number of unemployed grow less. On the other hand, with approximately one-third of a million immigrants entering our gates each year, with about 200,000 people coming into our cities from the farms, and with anywhere from 1,500,000 to 2 million young people reaching the working age each year, a very marked growth in our employment may at the same time be accompanied by a serious increase in the number of people unemployed.

A letter submitted to the Senate under Resolution 147, on March 24, 1928, by the Secretary of Labor stated that the actual number of unemployed in January of that year was 1,874,050. This figure did not in fact show how many were unemployed in the United States. As stated to your committee by the Commissioner of Labor Statistics it was nothing more than an estimate of the shrinkage of employment between the average of the year 1925 and the month of January 1928. As described by the commissioner, it was arrived at by taking the number of persons employed in 1925 in manufacturing and on the railroads, as reported in the census of that year, and subtracting therefrom the number of people estimated to be employed in these two branches of industry in January 1928. The estimate for January 1928, was based upon a sample of 2,907,700 workers in 10,772 establishments for which the Bureau of Statistics collects monthly figures. These figures show a shrinkage of 7.7 percent for January 1928, as compared with the average for the year 1925, and it was assumed that a corresponding shrinkage could be attributed to the remaining industries and plants in the country.

On this basis the estimated shrinkage arrived at for all manufacturing and railroad employees was 753,107. These figures, it should be noted, do not include the wage earners in agriculture, mining, trade, personal and domestic service, and clerical work whose number in 1925 approximated 1½ times the number of workers in manufacturing industries and on the railroads. In order that the workers in these other lines of activity might be included in the estimate, therefore, it was assumed that they had "been affected in like degree," and the shrinkage of 7.7 percent was attributed to them also. In this way a total shrinkage in American employment of 1,874,050 was arrived at.

The mere exposition of this method of computation shows its inherent weaknesses. First, is it fair to assume that because employment shrunk by a certain percentage in the plants for which the Bureau of Labor Statistics has data that all other manufacturing plants experienced the same contraction? It should be noted that the figures of the Bureau of Labor Statistics correspond almost exactly with the figures for the State of New York which cover a much larger percentage of the plants in that State than do the Bureau's figures of plants for the country as a whole. It is a fact, however, that the Bureau's data includes most of the larger plants in the country and that there are many small plants which have been increasing rather than decreasing their working forces. This is particularly true in the newer industries, like the manufacture of radios, household labor-saving devices, airplanes, etc. In other words, the figures of the Bureau of Labor Statistics may not even be an accurate picture of the shrinkage in the industries for which it collects regular data.

One cannot categorically say whether the present employment index of the Bureau of Labor Statistics is either overoptimistic or overpessimistic. It has been criticized as being both, and without making a very complete and elaborate survey of a very large number of plants in the country one cannot come to any valid conclusion.

A second self-evident weakness of the figures on employment submitted by the Bureau of Labor Statistics is that they include no first-hand data concerning trade, agriculture, mining, personal and domestic services, and clerical workers. Inasmuch as no data is available for these types of economic activity, the Bureau assumed in its estimate of the shrinkage of employment in the United States that employment in these fields had declined in the same proportion as employment in those industries for which data is available. The fact, however, is that in many of those industries for which no data is available the number of employees has been increasing rather than decreasing. New activities, such as gasoline filling stations, garages, beauty parlors, hotels, restaurants, and cafeterias, have been expanding quite regularly during the past 5 years. To assume that employment in these industries has been shrinking because such was the case in the manufacturing industries requires a very large stretch of the imagination.

Finally, the figures of the Bureau of Labor Statistics throw little light upon the extent of unemployment in the United States because they are based upon the assumption that the year 1925 was a year of no unemployment. Unless we know how many were unemployed in 1925, and there is no doubt that there was a large number of people without work in that year, no figures of shrinkage of employment since that year can throw any real light upon just what the situation was in January 1928.

What has been said in the preceding paragraphs are not meant in the way of criticism of the data of the Bureau of Labor Statistics. The Bureau has insisted time and again that its figures merely show the shrinkage of employment in manufacturing industries and that the estimate which it made in April 1928, was nothing more than an estimate developed with the only tools which were available to it. The Commissioner of Labor Statistics has stated that his conclusions are nothing more than a guess and that it was the best guess possible with the machinery and data at hand. Since the spring of 1928 the Bureau of Labor Statistics has attempted to expand its field of investigation and to secure employment data for a number of industries which have not in the past been included in its index. The Bureau has expanded its field to the extent that it now collects employment data for the bituminous and anthracite coal industries, metal mining, and wholesale and retail trade. It is the hope of the Bureau to secure data on building trades, hotels, and restaurants, and eventually upon every important phase of economic activity in the United States. If the Bureau's budget makes this possible, we may in the future have a pretty accurate picture of what is taking place from month to month along employment lines in American industry.

Other estimates of the number of the unemployed were made by private agencies in 1928. One which attracted considerable comment, and was frequently quoted, was made public by the Labor Bureau (Inc.), in February. This estimate was arrived at by assuming that there were, in 1923, 1 million unemployed workers in the United States. To this figure were added the increase in the supply of employable persons through population growth, which was placed at 3 million. It was estimated, also, that there was an increase of 1 million urban workers resulting from the migration from farms to cities. These three items gave a net increase in the number of people available for employment in 1927 of 5 million. To these 5 million was added the number of people who were thrown out of employment from 1923 to 1927. The total of these, which was made up of 1 million workers discharged from manufacturing industries, 100,000 discharged from the railroads, and 100,000 dismissed from the coal-mining industry, gave 1,200,000 people to be added to the 5 million mentioned above. From this increase of 6,200,000 people who were available for new employment was deducted the estimated possible increase in the number of people employed in other lines of activity. These were estimated at 2,100,000.

This figure was made up of the following:

Estimated possible increases of employment in certain lines	2,100,000
Professions	200,000
Amusements	100,000
Public utilities	200,000
Automobile sales and service	700,000
Other distribution	500,000
Building	300,000
Miscellaneous	100,000

Deducting the 2,100,000 increase in employment in the industries which enlarged their employment rolls from the 6,200,000 workers available for new employment, the Labor Bureau came to the conclusion that there were approximately 4 million people unemployed in 1927. This figure of the Labor Bureau is an excellent illustration of the extent to which estimates must be made in arriving at a figure of unemployment in the United States. The only satisfactory data included in this estimate are those for manufacturing and for railroads, and even one of these is highly conjectural. The figures for manufacturing, as was shown in preceding pages, is itself an estimate that is subject to much error. All of the remaining figures are mere guesses, and just how much error they include nobody can say.

The Brookmire Economic Service, another private organization, which acts as economic and financial adviser to the business world, undertook last year to estimate the number of unemployed for each year from 1910 to 1928. The method used was to figure out the difference between the actual employment and the probable maximum employment in each year. During this period of 18 years it was assumed that 6 years—1910, 1912, 1917, 1920, 1923, and 1926—were years of exceptionally good business conditions and of no unemployment. With this assumption the Brookmire Economic Service came to the conclusion that the maximum unemployed in the United States in any one year since 1910 was 3,653,000, in 1921. In 1927 they estimated that there were 1,466,000 people unemployed. For March 1928, the estimate was placed at 2,632,000. The significant thing about this figure is the fact that this number, namely 2,632,000, became unemployed during the short period between the year 1926 and March 1928. It seems improbable that so large a number of people had been thrown out of employment in this relatively limited length of time.

No students of the unemployment problem have ever assumed that there has been a period of unemployment during the past 18 years. In 1890 and 1900, in the midst of industrial prosperity, the decennial census showed that 50 percent of the workers of the country were unemployed at least 2 months each year. Evidence is available for the bituminous-coal industry showing that in the prosperous year 1926 a considerable number of the people attached to that industry were unemployed. Indeed, one can find innumerable cases in every industry showing that the year 1926 was one of unemployment for its workers for some perior of the year. If, therefore, there was in fact an increase of 2,632,000 in the number of unemployed between 1926 and 1928 the number of persons without work in the latter year must have been much larger than that given by the Brookmire Service. Just how much larger it was it is impossible to say.

That the results obtained from the various methods of estimating unemployment approximate each other so frequently is no justification for the belief that they are in any way correct. The data used are in large part the results of guesses, and the fact that many guess alike is no basis for assuming that they have guessed correctly. One may hesitate completely to accept the assertion that "Unemployment estimates are virtually worthless as far as this country is concerned. Even where deliberate bias is not present the estimates must perforce be made up from data which are not accurate even within wide limits of error. Obviously no analysis, however conscientious, can impart to an estimate dependability which does not exist in the raw data utilized." The fact remains, however, that there is much truth in this statement. It is the opinion of one statistical expert who for many years has been working with the available data and who submitted testimony on unemployment statistics to your committee that, "Neither on the total volume of unemployment, nor on its distribution among industries, nor on its geographical distribution, nor on its duration, is there any direct evidence worthy of serious consideration."

In view of the present status of unemployment data, however, one can do little other than use whatever material is available, always remembering that most of it is nothing more than vague guess, and working at all times toward the collection of something more scientific and trustworthy.

Without a census of unemployment we are destined to remain in the dark in the field of unemployment statistics. It is an interesting commentary upon American governmental procedure to find that one can secure at a moment's notice data showing the status of our wheat, oat, barley, rye, flax, hay, bean, apricot, prune, cherry, and walnut crops, as well as innumerable other agricultural products, the production of condensed milk, the cold-storage holdings of cheese and pickled pork, and yet be unable even reasonably to estimate the number of unemployed in the United States. If the American people are ever to take any action toward dealing with the unemployment problem, data more reliable than anything which has been thus far available will have to be collected. Any plan, either for the prevention or relief of unemployment, whether it be undertaken by the Government, private industry, social agencies, trade unions, or any other organized group, must be based upon fairly reliable data which shows the extent and distribution of unemployment. European governments such as Great Britain and Germany automatically come into regular possession of fairly accurate data through their employment exchanges where all the insured unemployed must register. Since we have no means of compelling the unemployed to register in the United States our only sources of information is a census.

Irrespective of all of the difficulties inherent in making and tabulating a census of unemployment it was the opinion of those who testified on this matter that none of them is sufficiently large to warrant our letting slip by the opportunity of having an unemployment census made in conjunction with the Population Census of 1930. All that would be required is the inclusion of two additional questions to the schedules to be printed. With such data which is usually included on the schedules the Census Bureau could, without any great expense, tabulate much information which would be both valuable and essential concerning the extent of unemployment, the ages, sex, former occupation, distribution, and a host of other important facts concerning those who have no jobs.

Granted that it will be hard to define for the average enumerator just what an unemployed person is, and granted also that by the time the census is completed and the results tabulated conditions may be radically different from those on the census date, such a census would nevertheless give us a base from which to work in approximating in some acceptable manner the trend of unemployment from month to month. It will give us, first, a good approximation of the number of unemployed on the census date. Secondly, with fairly representative data on employment for many manufacturing industries already being currently collected by various State labor bureaus and the Bureau of Labor Statistics, with monthly immigation figures available, with fairly good school and college figures, and with a growing collection of data for employment in nonmanufacturing industries, it will be possible to calculate usable figures showing the changes in the number of unemployed at stated intervals as compared with the base date on which the census is taken. The results obtained in this way will, to be sure, be approximations. They will in all probability contain a fairly large measure of error. They will, however, be far superior to any estimates which are now available, and will at least free us from the necessity of having to choose from a variety of estimates—all credible—which differ from each other by as much as 2 million.

The Bureau of Labor Statistics' present policy of expanding its sources of employment data and of adding to its present data new plants and industries wherever possible should be approved and furthered. Sufficient funds should be made available for the expansion of this type of work.

Further data should also be collected which will throw light upon the extent of part-time employment in the country. Figures showing the amount of employment and unemployment do not truly reveal conditions. Very frequently plants are operated for but a few days each week and the workers on the payroll are depicted in our statistics as being employed. Prolonged periods of part-time employment are as detrimental to the welfare of the labor and as effective in checking general purchasing power as are shorter stretches of complete unemployment. Steps have already been taken by the Bureau of Labor Statistics toward the collection of information on part-time employment and it is highly desirable that this phases of the statistics of unemployment should be further developed.

A great deal can be done by the individual States along the lines of collecting and furnishing statistics of unemployment. A little more than half a dozen States are already collecting reliable monthly data on employment within their borders. Nothing has been done, however, toward developing unemployment data. There is now before the Legislature of the State of Massachusetts proposed legislation for the regular collection of information which will show the industries in which unemployment is concentrated, the geographical distribution of the unemployed, and other facts which are essential to understanding the causes and the means of alleviating unemployment. The State of

Massachusetts should be strongly urged to enact the legislation which will make available such valuable data and other States should follow along the same lines.

(c) *Public works*

The advance planning of public works has long been accepted as the one instrument which governments can use in alleviating such unemployment as results from general business depression. The unemployment conference of 1921 emphasized the need of a Federal plan which would make possible the curtailment of public construction wherever feasible until such times when industry as a whole is generally depressed.

The idea is not a new one. It has been advocated now for several generations, and several times during the past decade legislation providing for the establishment of such a policy has been proposed in Congress.

It should be said at the outset that a public works program will not relieve unemployment caused by depression in any single industry. If public works had been instituted during the past 3 or 4 years, they would have had little effect upon conditions in the coal and textile industries where factors unique to these industries have brought about an appreciable decline in the demand for their products. Public works will be effective rather in periods of general industrial depression when all industry is affected.

Nor will they prevent the occurrence of future industrial depressions. The ebb and flow of economic activity is so intertwined with all of the forces of human psychology, the forces of nature and innumerable other factors, that it would be folly to suggest that any one piece of machinery could lead to the elimination of fluctuations in business. A public works program should, however, effectively shorten the life of business depressions and at the same time check the severity of such recessions that may come in the future.

An effective program would provide for the postponement of such public construction as could be conveniently delayed from periods of great industrial activity to periods of industrial stagnation. Such delay would have two results. In the first place the Government would be removed as a competitor of private business in the market for building materials and labor during times when industry is already having difficulty in securing sufficient material to meet the demands of its consumers. The Government demand during periods of business boom frequently does little more than raise prices beyond a level which is already too high. Should public construction be delayed until periods of depression it should be possible for purchases of materials to be made at lower costs than would otherwise be possible. During recessions, when private demand is usually small, the Government could make its purchases under much more favorable conditions than would otherwise be possible. At the same time it would be able to secure its required labor at lower wage rates or at least secure the best possible type of workman at the going wage rates.

The second advantage of the postponement of public works would be that Government orders coming at the psychological moment would have a tendency to stimulate business activity at times when other orders are not available. The placing of contracts at the beginning of

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a depression would automatically result in a demand for iron, steel, copper, cement, brick, lumber, and the products of some 20 other allied industries. Such a demand will in turn lead to the employment of labor in these industries. Such labor as will be employed will become purchasers of other products such as food and clothing, thereby stimulating the activity of those industries which cater to the needs of our laboring population. In cumulative fashion all industry will be stimulated at a time when business contraction and unemployment are underway.

Though the expenditures of the Federal Government constitute but a fraction of the total amount spent by the country as a whole for public buildings, drainage, dams, etc., it is incumbent upon it to establish an example and set a standard of performance for the States, counties, cities, and town to follow. It is these divisions of our Government which can do the most effective work along the lines of planning long-time public construction programs. Their expenditures constitute by far the largest portion of our public outlay. They should be urged immediately to make provision for a longtime program and create the machinery which will be in shape to function at the opportune moment. To function effectively it is essential that engineering plans be drawn up and everything pertaining to the placing of contracts be in readiness at the time when general business has started on the downgrade. Unless such provision has been made in advance it may take many months after the need has arisen before the necessary work can be started. One of the witnesses who testified before your committee pointed to the case of Massachusetts during the depression of 1914 when an attempt was made to drain one of the swamp areas of the State in order that employment might be given to jobless men. In this case the absence of engineering reports and the need for the formulation of plans made it impossible to do anything for a year and a half. Without advance planning of this type anywhere from 6 months to a year is taken up before any work can be done.

It was the consensus of opinion of those witnesses who testified on the question of public works that the passage of the "prosperity reserve" legislation now before this body would have a telling effect upon American business policy. The example set by the Federal Government would, in their opinion, have an effect upon business executives and would probably lead them also to apply the brakes to business activity during periods of overenthusiasm, thus preventing the overexpansion which usually accompanies boom periods. It would also lead them to accumulate reserves for dull times and enable them to manufacture for stock during periods of few orders, thereby keeping more labor employed. American business is already adopting the policy of accumulating financial reserves to meet dividend requirements during periods of depression. Governmental example may lead them to develop similar policies in regard to production and employment during recession periods.

(*d*) *Unemployment insurance*

Unemployment insurance is a new venture in American industry. Some 15 private industrial organizations today have their own insurance funds and make provision for paying their workers during periods of unemployment. It has been the policy of those private firms which have unemployment insurance systems to create their own insurance funds and bear the burden of the cost themselves. Contributions are not exacted from the labor forces. The amount paid to workers varies with the different organizations. One large manufacturer in New England employing some 3,000 people guarantees to each employee 80 percent of his weekly earnings, if he is married, and 60 percent of his earnings, if he is single, during such periods as he is unemployed for reasons over which he has no control. One of the railroad companies pays a weekly sum of $15 to its discharged employees for a period of 6 weeks.

It is generally felt that company insurance funds which are supported by the management alone are more advantageous than contributory funds because of the fact that when the cost is borne by the employer he is driven to the regularization of employment and is forced to do everything in his power to prevent the discharge of workers. By making the cost of insurance a charge upon production it is to the advantage of the employer to keep his force employed as steadily as possible and thereby keep his overhead charges at a minimum.

In the Chicago men's clothing market a system of unemployment insurance has been in effect for the past 6 years. This system is the outgrowth of an agreement between some 400 employers and the Amalgamated Clothing Workers of America whereby both the employers and employees contribute jointly to an unemployment insurance fund from which relief is given to workers when involuntarily out of work.

"At the outset the plan called for contributions by employers and workers of 1½ percent of the total wages. In 1928 the contribution of the employers was increased to 3 percent making a total contribution of 4½ percent. Benefits were limited by the first agreement to 40 percent of the wages for a period not to exceed 5 weeks per year. Under the present agreement the number of weeks per year is increased to 7½ with provisions for the cumulation of unpaid benefits from year to year. From time to time the rules governing the payment of benefits have been changed to safeguard the funds. At present the weekly benefit is 30 percent of the wages. For the most part the plan operates on a house-fund basis; that is contributions in the case of any particular firm may be used only for the payment of benefits to workers employed by the firm. The funds are administered by trustees representing the employers, trustees representing the workers, and one neutral trustee as chairman." At the present time about 20,000 workers come under the insurance scheme. The unemployment insurance agreement was extended to the Rochester and New York clothing markets during the past year. Similar schemes also prevail in a few other industries where the trade unions and employers have made agreements for insuring workers against unemployment.

It was the unqualified assertion of all of those who gave testimony on unemployment insurance that the realization of the fact that unemployment would not result in a loss of income has led to a heightened morale among the workers insured and has brought about lower production costs. Nothing in modern industry interferes with the efficiency of workers as much as does the fear of being thrown out of work. The larger part of the restriction of output which prevails in industry is due entirely to the fear of working oneself out of a job.

The experience of the men's clothing industry in Chicago has given undisputed proof of the fact that labor will do anything in its power to increase production once it is freed from the specter and suffering of unemployment.

Although bills proposing the compulsory insurance of workers against unemployment have in the past been submitted to the Legislatures of Massachusetts and Wisconsin, there is today no compulsory insurance of this type in the United States.

Great Britain was the first country to introduce a national system of compulsory unemployment insurance.[2] The National Insurance Act, 1911 (pt. II) made provision for insurance against unemployment in 7 selected trades—building, construction, shipbuilding, mechanical engineering, iron founding, construction of vehicles, and sawmilling—covering over 2 million workpeople. The scheme was extended by the Munition Workers' Act of 1916 to include additional groups of workers who were expected to suffer from unemployment after the war, bringing the total of insured up to 4 million. The act of 1920, the principal act dealing with this project, brought into insurance all persons of the age of 16 and upward employed under a contract service. Over 11,500,000 workers are now insured under this scheme. Since provision is made for dependents, it may be estimated that some 30 million are directly affected by its provisions.

The British law requires that all persons between the ages of 16 and 65 who are employed under contract of service in Great Britain, including apprentices in receipt of a money payment, must be insured against unemployment. The chief classes who are excepted are persons engaged in agriculture, domestic servants in private employment, those for whom the Minister of Labor thinks insurance unnecessary because of the regularity of their employment, such as Government and public corporation employees, and all persons who are not manual workers and who are receiving remuneration at a rate exceeding £250 a year.

The state contributes annually, from money granted by Parliament, an amount equal to rather less than one-third of the total contributions of employers and workmen. The contributions from the employers, the workmen, and the state together form the unemployment fund from which benefits are paid. This fund is controlled and managed by the Ministry of Labor.

Contributions are levied at a uniform rate for all workmen between the ages of 21 and 65. There is an obvious objection to the payment of equal contributions by people subject to different risks. The amount of unemployment varies with the occupation, the age, and probably with the wage of workmen. It was actually intended on the introduction of the scheme to meet this variation through differences in the rate of benefits, but the lack of adequate statistical data made this difficult. Women, young men, and young women over 18, and boys and girls under 18 pay a different rate of contribution from men and get different rates of benefit.

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[2] Material in this section is taken from a memorandum prepared for the Institute of Economics of the Brookings Institution, Washington, D.C., by Dr. Joseph Cohen, Cambridge University, England.

The condition that the unemployed workman must make application for benefit in the prescribed manner is the very core of the scheme. He is required to register at the employment exchange the fact of his unemployment. The exchange knows or is able to ascertain whether his unemployment is due to lack of work in the etablishment in which he has been engaged. It is able to find him work in his own occupation in other establishments in the district, if vacancies exist. It might even help him to obtain employment in some other part of the country. The employment exchange thus controls the payment of benefit. It administers the test which qualifies for benefit. The unemployed workman, when he presents himself at the exchange, may thus be offered either new employment or unemployment benefit.

The most frequent charge made against the scheme is that the benefit has degenerated into a "dole." This is the opprobrious designation hurled against the scheme by those who are opposed to its working, to its very existence, or to some feature in it.

Constant reiteration of this term of abuse has affixed to the British unemployment insurance scheme a stigma which the repeated protest of the responsible minister, of the leaders of all political parties, and of the serious press, has not been able entirely to remove.

Four distinct grounds have given rise to the use of this term:

(1) An out-of-work donation scheme was applied in 1919 and 1920 to ex-servicemen as well as to civilians for 12 months to meet the special emergency of having to transfer from war to peace conditions.

(2) A considerable number of insured members supplement their benefits from outdoor poor law relief, thus indicating unemployment insurance has not proved adequate by itself.

(3) Owing to the continued crisis uncovenanted benefits, later known as extended benefits, were given under special conditions, at the direction of the Minister of Labor.

(4) Even where there was no request for extended benefits, the constant changes in the unemployment-insurance scheme—in the amounts benefit, and the contributions and the general conditions—gave critics the opportunity of asserting that its insurance nature had entirely disappeared.

Is there justification on these grounds in applying the term "dole" to the unemployment benefit, and if so, to what extent?

(1) The term was in recent years first applied to the out-of-work donation given by the Government out of the Treasury to ex-servicemen (including seamen) and civilians, who were unemployed within the 12 months following their personal demobilization. Some £40 million were distributed to ex-servicemen and £22 million to civilians.

Amount paid in ex-service and civilian out-of-work donation

Financial year:	
1918–19	£13,255,233
1919–20	36,704,301
1920–21	11,923,204
1921–22	544,030
1922–23	12,499

There is, however, an essential difference between the out-of-work donation scheme and the unemployment-insurance scheme. It arises from the fact that donations were paid to certain bodies of unemployed as a free gift, entirely from State funds, while benefits under the unemployment insurance acts are on contributory basis and payments are made out of a fund to which working people and their employers themselves contribute about three-fourths. The former were granted as a postwar governmental bonus for services during the duration of the war, the latter are granted to certain bodies of insured people engaged in normal occupations who satisfy certain conditions.

(2) The law of England since 1601 has been that people in distress may go to the guardians of the poor in their district and obtain adequate relief. The acceptance by an insured person of unemployment benefits does not deprive him of the right of concurrent aid from the poor-law authorities if he is in distress. Such distress might arise when his claim to unemployment benefits is exhausted, since he is entitled to draw such benefits only for a limited period. It might occur also even while he is drawing unemployment benefits, if he has a very large family to support or an expensive illness in the house, since the amount of benefit he draws is, in amount, comparatively small.

Even under the comparatively generous American compensation laws, public or private relief in cases of industrial accident has not entirely disappeared because of the benefits granted frequently prove insufficient. This is rather an argument for the increase of insurance benefits. In Great Britain as well as in Germany unemployment benefits were meant to be kept so low as not to tempt the lowest paid workman to malinger. Low benefits were justified also on the ground that they were to be supplemented by private savings. Clearly, after the extended period of depression many of those most affected must long ago have exhausted any savings they may have had or any credit they could raise.

(3) and (4) The next two criticisms of the "dole," those referring to the uncovenanted benefit and to the constant changes, can be best dealt with together.

Throughout the exceptionally long period of severe unemployment, there has been a constant expectation that an abatement was near at hand, and consequently it was not felt that there was need for any radical change in the accepted view of the problem and the treatment based on it. To meet the special circumstances, therefore, short-period schemes were introduced, and frequent modifications were made in contributions and benefits. The authorities oscillated between the view that the unemployment insurance scheme was in itself enough and the view that it needed to be supplemented by poor-law relief. Uncovenanted or extended benefits were introduced which had some of the characteristics of both insurance and relief. While they were still paid from the unemployment fund to which the workers had contributed, benefits were granted for longer periods than had been laid down in the scheme, and with special conditions determined by the Minister of Labor. The erroneous assumption that unemployment would not last made these constant tamperings with the scheme inevitable. But it should be noted that the contributions in spite of frequent modifications retained their old proportions fairly closely and that the Government at no time bore the whole or even half of the costs of the scheme. Changes in the rates of benefits, moreover, may be made unexpectedly even by private insurance companies.

As to the argument that unemployment insurance in Great Britain has created a standing army of unemployed, it should be stated that careful investigation has revealed the fact that the unemployed, as a rule, are out of work for a few weeks and are then absorbed into industry.

It has been established as the result of special inquiries that some 90 percent of the unemployed consist of persons who normally would either have steady employment, or would obtain a fair amount of employment. A nucleus of individuals consisting of about 7 percent of the total unemployed constitute the "hard core" of unemployment. These are mainly individuals over 45 years of age in whose case unemployment has been comparatively serious. The remainder must not be regarded as chronic cases. The personnel is constantly changing, and the majority are at work for probably not less than 75 to 80 percent of the time. Indeed, leaving out the small group, the unlucky 7 percent, the remaining 93 percent have suffered not much more unemployment than is normal in the United States. Only one-fifth of the possible working time of this 93 percent of the British industrial population has gone to waste since 1921, an amount which is not much larger than is usually wasted in American industry.

Nor does there seem to be any truth in the suggestion that administrative checks on applicants for benefit have not been enforced. They have been obliged to call at the employment exchange at regular periods to register their unemployment. Their cases have been inquired into not merely by the employment officer but by advisory and special committees. Indeed, there has frequently been more cause to complain of undue harshness in forcing workmen to present themselves regularly at the employment exchange to report.

The Minister of Labor in his report for 1927 states that:

> Wherever there is a suspicion of fraudulent misrepresentation to obtain benefit, and on the evidence a conviction seemed probable, the general policy of the department to institute proceedings has not changed.
>
> During 1927, 1,639 persons were prosecuted for this class of offense, which constitutes a decrease of 111 in comparison with 1926, and 395 in comparison with 1925.

From the following table the result of the prosecutions for 1927 may be compared with the corresponding figures for 1925 and 1926.

	Fined	Imprisoned	Bound over or admonished	Summonses dismissed	Total
1925	1,273	496	146	119	2,034
1926	1,144	341	166	99	1,750
1927	1,164	223	145	107	1,639

It will be seen that these figures are small in comparison with the number of claims to benefit which approach millions. It will be apparent that the number of cases brought before the courts were appreciably lessened, and that there was a more than proportionate decrease in the number of cases the magistrates consider grievous enough to deserve imprisonment. (Ministry of Labor Report, 1927, pp. 45, 46.)

Although it was the opinion of those who appeared before your committee that we have not yet reached the stage in the United States where compulsory unemployment insurance is practicable it is highly desirable that some action be taken which will lead to the inauguration of an unemployment insurance system. Some provision must be made for the workers who are daily being thrown out of employment by changes in industrial organization and industrial technique. During the period of search for new jobs and during the period of retraining—particularly in cases where skilled laborers find themselves supplanted by machines—society owes it to the worker that he be in part provided for. Irrespective of the efficiency of any system of employment exchanges and irrespective of the efforts of private industry to regularize employment there will always be an appreciable number of persons who are out of jobs through no fault of their own. Such persons should be entitled through a contractual relation with an insurance fund to the receipt of unemployment benefits. If constitutional difficulties make a Federal system of unemployment insurance impracticable, some system of Federal and State cooperation should be developed where in the Federal Government will subsidize and oversee such State compulsory insurance systems as are created.

One large insurance company stated, in a memorandum submitted to your committee, that in its opinion unemployment insurance is an actuarial risk which can be computed and that it is possible for the modern insurance company to undertake the writing of group-unemployment insurance. Indeed, this company states that it is ready to undertake the writing of such policies on a plan similar to the group-life insurance it is now writing for industrial concerns and that it will go into the unemployment-insurance business as soon as it can secure permission from the State in which it is incorporated to do so under its charter.

It was made evident, however, from the information secured from witnesses who appeared before your committee that temporary unemployment-insurance benefits will not in themselves meet the needs of those workers who are out of work. Virtually all of the employers of labor who testified frankly stated that it is against their policy to take on new employees who are over 45 years of age. Some of these witnesses, to be sure, have pension plans for their superannuated workers, but many of them do not.

Special provision must be made for the men over 45 who are unemployed. Many of them are still in the prime of life and are able to meet the requirements of industry. They are not old in the sense that they have outgrown their usefulness. Yet once they have been discharged they find it exceedingly difficult to secure new employment. It is the duty of American industry to keep these men on their pay rolls rather than to turn them adrift upon a labor market which refuses to absorb their services. One of the larger automobile manufacturers stated that he has special departments for employees who are unable to maintain the pace set by younger men. Other manufacturers should adopt a similar policy.

The older workers who have given the better part of their life to the service of a given industry are entitled to support by that industry once they have outgrown their usefulness. If industry does not meet this responsibility, it is the function of society, for whose benefit in the last analysis industry is organized, to make the necessary provision. All of the important civilized nations already have state-pension systems. The United States is alone in its failure to provide for the worker who is dispossessed because of old age.

Unemployment insurance, undertaken by private industry, should prove to be one of the greatest stimuli toward the elimination of unemployment which has thus far been devised. Not only does it furnish employees with purchasing power during periods of unemployment but it also leads to efficiency on the part of laborers and thus to the lowering of production costs. One witness who has provided unemployment insurance for his 3,000 workers insists that if any of his labor policies had to be altered, unemployment insurance would be the last to be touched. The essential feature of unemployment insurance is that like accident insurance it has within it the germ for the elimination of the very thing it undertakes to insure against. American experience with accident insurance has made patent the fact that both the employers who bear the cost of the premiums and the insurance companies which carry the risks are both driven to cut down as far as possible the chance of accident. This type of insurance has perhaps more than any one thing brought about a radical decline in industrial accidents. The experience of those organizations in the United States which have experimented with unemployment insurance is evidence of the fact that this type of insurance will lead to the same results in the field of unemployment.

SUMMARY AND CONCLUSIONS

If we are effectively to cope with the problem of unemployment, the forces of both the Government and private industry must be mobilized.

As far as the Federal Government is concerned, three distinct measures should be adopted by its executive and legislative branches:

1. Its statistical resources should be mobilized so that current information will be available at all times showing the status of production and trade and the extent of employment and unemployment. Such information is essential if American industry is to be able to formulate production schedules. Without it, the distributive branches of industry—i.e., the wholesaler, the jobber, and the retailer—can not make rational future commitments.

2. To lessen the severity of business recessions the Federal Government should make provision for a prosperity reserve which will, wherever possible, postpone public construction from periods of great industrial activity to times of depression. Plans and specifications should be prepared in advance, so that contracts may be placed at the time when they can most effectively stimulate the demand for labor and the demand for industrial products.

3. A well coordinated system of employment exchanges supported in part by Federal funds and supervised by a Federal employment director is essential to the expeditious placement of unemployed workers. Such an organization should be created with the aid of the individual States together with Federal clearinghouses strategically located to meet the needs of given geographical areas.

4. In order that the involuntarily unemployed may be provided for during the period of transition from one job to another a system of unemployment insurance should be organized. The exact status of the Federal Government in this connection is somewhat in doubt. It could, however, cooperate with the individual States in bringing such systems into being and through Federal aid stimulate their establishment.

Unless private industry avails itself of the means afforded by Government for the prevention of unemployment little will be accomplished. Industry must undertake to play its necessary part:

1. The business executive must learn to use the statistical data made available by the Government.

2. Business must voluntarily undertake to control activity when industry is approaching the stage of overexpansion. The exercise of such self-control is essential to the elimination of violent business fluctuations.

3. American business leaders must develop the will to regularize output and employment. They must be made to recognize the fact that they more than anybody else are responsible for the steady employment of their workers and that by budgeting output and by diligent search ways and means can be found for stabilizing employment.

4. American business must make provision for the support of its workers during periods when no work can be found for them. Private unemployment insurance funds have been found a practicable means for meeting this situation. The actual cost is insignificant when compared to other costs of production. Such insurance, indeed, may eventually be found to add nothing to the costs of running American business. The increased efficiency of labor, once it is freed from the fear of unemployment, has in many instances in this country proven sufficiently great to offset the burden of carrying insurance funds.

[From Survey, Apr. 1, 1929]

UNEMPLOYMENT, 1929

(By William M. Leiserson)

"We are so accustomed to associate unemployment with prostrate industry, closed factories, and universal profound depression, that it is hard to revise our ideas and grasp the fact that we must also grapple with an unemployment problem that is the direct outcome of prosperity. It is likely to persist and, it may be, increase even if our industrial output after the present recession should resume with full vigor the upward trend that has characterized it of late years."

When the New York Journal of Commerce carried the above about a year ago (February 1928) the index of industrial production compiled by the Federal Reserve Board had shown a steady decline during the greater part of the year 1927. But the upward trend predicted by the Journal began early in 1928 and has continued, with only seasonal recessions, ever since. The latest figures available show that in December 1928 the total volume of production was about 5 percent higher than in March 1927 when the downward movement began. The year 1928 taken as a whole set a new high record, not only for production, but for retail sales and business profits as well. Industrial production in 1928 exceeded by 6 percent the previous record year 1926. Consumption of electrical power by manufacturing plants, considered one of the best evidences of business conditions, shows the highest level ever recorded—40 percent above the average of the years 1923–25. Mail-order and department-store sales set new high records in 1928, and business profits according to tabulations of the National City Bank were almost 10 percent higher in 1928 than in 1926, the previous record year.

Prosperity has returned with full vigor, but as the Journal of Commerce prophesied, unemployment persists and promises to increase, as "a direct outcome of prosperity." While the number of workers employed in 1928 increased above the low points reached in 1927, the total employment in December 1928 was still about 12 percent below 1923. For the whole year 1928, the U.S. Bureau of Labor Statistics reports a reduction in working force of 14 percent as compared with 1923. Its data come from factories which employ nearly 40 percent of all the workers engaged in manufacturing. It is reasonable to assume, therefore, that the trend of employment shown in them is representative of manufacturing industry as a whole. And if this is true, then the factories of the United States employed some 800,000 fewer workers in 1928 than they did in 1923.

Factory employment figures published by various State departments of labor, and other data, show the same trend. In New York State, factory employment dropped 16 percent from 1923 to 1928; in Illinois, 15 percent; in Massachusetts, 22 percent; in Pennsylvania, 11 percent; in Wisconsin, 10 percent. On the railroads of the country the number of employees dropped 200,000 in the last 5 years, a reduction of about 10 percent.

That this increasing unemployment is the result of prosperity rather than of depression becomes quite plain when we consider the rising wages that have accompanied the declines in employment. Follow the curve of weekly earnings on the accompanying chart, and you see that factory employees have never earned such high wages as they received in 1928. Average weekly earnings have risen 8 percent in New York State since 1923 and about 5 percent in the country as a whole. Earnings now are higher than in the boom year of 1920, despite the drop in cost of living since that time.

Those who are employed shall earn more than ever before; but fewer shall be called to work, and more shall be unemployed: That is the promise of American industry to its wage earners throughout the year 1929. One did not have to be a prophet to predict it. Look at the pictures of the trends in recent years. More and more power used, production climbing, sales mounting, profits rising, and wages increasing—while the number of workers employed gradually declines. That is the story of the last 5 years, and that is likely to be the story during the present year, and for some years to come, with variations here and there, no doubt. There are no signs at present that the prevailing tendency is to be altered.

And, so long as conditions make the drive for efficiency and reduced costs necessary, and it is accompanied by technological and managerial improvements such as have marked the last 5 years, we may expect the same tendency to continue—increasing unemployment with increasing prosperity. In the immediate future, at least, less and less manpower is likely to be needed to produce more and more output, more and more profits and more and more wages.

The increasing earnings of industrial employees is hardly to be explained by a growth of the spirit of philanthropy among employers. It is to be accounted for rather by the discovery that it is cheaper to pay higher wages to a smaller number of efficient workers than lower wages to a larger number of less efficient. Industry is therefore concentrating its work in the hands of a smaller number of employees. The younger, the more active and capable workers are taught and stimulated by incentive wage-payment plans to produce and to earn more, while the older, the slower, and the less efficient workers, are weeded out to swell the ranks of the unemployed.

Not long ago we were looking over the employment records of a large plant in the Middle West. In 2 years not a single permanent employee was hired who was over 45 years old, and there was only one of these. The maximum age of those hired in all but a few weeks was under 30. On the other hand, the record of discharges and lay-offs showed that those separated from the payrolls against their will were much older people. Here are a few items taken from the record which show what is happening:

Discharged. Age, 53; 10 years in the plant; "unreliable."
Laid off. Age, 60; 8 years with the firm; "change in industrial process."
Laid off. Age, 50; employed for 5 years; "reduction in force."
Dropped. Age, 41; employed 3 years; "physically unadapted to the work."
Discharged. Age, 49; 15 years in the mill; "careless."
Laid off. Age, 43; employed 12 years; "slow."
Laid off. Age, 58; employed 9 years; "completion of temporary job."

Not all those eliminated are of this older type, of course. In fact, the majority of "exits" as well as those hired are younger people. Those who leave are merely more heavily weighted with the old. But the reasons for the exits of the young are not much different from the reasons for the old: "careless," "incompetent," "reduction of force," "slow," "lazy," "unadapted to the work." Thus does unemployment result directly from the prosperity brought about by better methods of management, improved machinery, and new processes of manufacture.

To this must be added the unemployment that comes from the mere growth of large-scale production. Some years ago the National Bureau of Economic Research found that, contrary to popular belief, the workers in large establishments suffered more unemployment than those in smaller plants. In every line of industry including trade, transportation, mining and construction, as well as manufacturing, the number of people laid off between the peak of prosperity in 1920 and the trough of depression in 1922 increased as the size of the business increased. In manufacturing, the plant employing less than 20 workers showed a reduction of employment from the peak amounting to only about 8 percent. The plants with 21 to 100 employees reduced employment about 20 percent; while, in the largest establishments, those with more than 100 employees the reduction was more than 33 percent.

Apparently the small plants are much more inclined to keep their employees on the payroll during slack times and to divide what work there is among all hands than are the large establishments. The latter prefer to concentrate the available work on a smaller number of employees, and to lay off or discharge the surplus. This tendency, which the National Bureau of Economic Research discovered in the depression years 1921–22, has continued as a factor in increasing unemployment in the prosperous period since that time. While the general trend of business has been upward from 1923 onward, the years 1924 and 1927 developed recessions, and compared with the years immediately before and after were distinctly years of depression. And every year continues to have its busy and slack seasons. Between the peaks and the troughs of these fluctuations, the larger establishments throw out of employment a larger percentage of their workers than the small. The growth of our scale of production thus becomes another factor in increasing unemployment at the same time that it increases prosperity.

But doesn't all this increasing efficiency and decreasing costs lower prices to consumers and thereby bring on more demand and provide more work? No one familiar with the facts of modern industry can doubt that this is true—in the long run. But the more rapidly technical and managerial improvements are made, the longer the run becomes before such an adjustment can take place. Certainly in the last 5 years lowered costs have not increased demand enough to provide work for the displaced workers. Whether it is the rapidity with which labor-saving methods have been introduced, or because of other reasons, the fact remains that producing capacity is growing faster than the capacity of the consumers to buy the goods and services produced. Until we find ways of offsetting this tendency, we may expect increasing unemployment to result from increasing prosperity.

And because it is always the less efficient, the older, and the less adaptable that are displaced, while continued idleness increases their lack of industrial quality, we may expect not only increasing numbers of unemployed, but also more unemployables. This is probably the explanation of the growing demands on charitable agencies and the increasing relief expenditures which have become a marked characteristic of our prosperity. Social workers have wondered at this development, and have been inclined to ascribe it to more liberal amounts of relief given to individual families. But the available figures seem to show rather that the amount of relief per family has hardly risen since 1923. What seems to have happened is that the number of families receiving relief has been increasing faster than both population and the cost of living.

A generation ago people talked about the unemployed. Idle labor running to waste appeared as a personal problem. Lack of foresight among the poor brought more people into the world than could find sustenance; and the least capable, the thriftless, the untrained, the dissipated, the unambitious, and the physically and mentally handicapped gave us an army of unemployed and unemployable.

Then the conception changed to unemployment as a problem of industry. Not the personal qualities, but the fluctuations of industrial demand caused unemployment. Over a period of years, industry was able to absorb all the growing population, but its needs for labor were intermittent, and thus irregularity of employment rather than a surplus of workers was looked upon as the essence of the problem of unemployment.

Today this conception of unemployment—as essentially an industrial problem resulting from intermittent demand for labor—still prevails. But the displacement of labor resulting from the growth of prosperity tends to bring about conditions which make the older view true again. A surplus of labor more or less permanently unemployed is being developed, consisting of the less efficient, less adaptable, and more unemployable whom the community must support through taxes or through private charity, because they can find no place in industry.

Is this what we must look forward to? If we allow matters to drift, no doubt this is the prospect. But there is plenty of evidence that it is possible to control industrial development to make such a condition unnecessary.

If workers are rendered obsolete by improved methods and machinery, then why is not an obsolescence charge for labor as legitimate a cost of industry as obsolescence depreciations for machinery and other equipment, which is a common item in the accounting of rapidly changing industries? Already a number of foresighted employers have established unemployment funds out of profits laid by for rainy days for labor, as they lay by a surplus out of which dividends may be paid in bad years. And several unions have forced such unemployment funds on their industries.

If improvements are made too rapidly for the displaced labor to be absorbed in other industries, then may it not be sensible to make the introduction of the improvements more gradual, just as industries delay discarding expensive machinery until it is well worn out before replacing it with the latest inventions? And where this is not desirable, should not the burden of maintaining and retraining the displaced labor, until it can be reabsorbed, be borne by industry as a whole rather than by the individual workers?

While unemployment in 1929 and in the immediate years to come is likely to be primarily a problem of prosperity, it is not inevitable that we shall look forward to a permanent and increasing army of surplus unemployed and unemployable labor living on the charity of the community. The remedies for this and other kinds of unemployment are now well known. We need but the will as a nation to undertake and to develop them, and to stimulate private industry to do its part in sharing the risks of unemployment as we have made it share the risks of occupational injuries. Perhaps industry will develop a security next movement as energetic as its safety first campaign, when it has to face its responsibility for unemployment as it does for accidents.

[From Survey, Apr. 1, 1929]

BUSY MACHINES AND IDLE MEN

UNEMPLOYMENT AS PART OF THE PROCESS OF INDUSTRIAL GROWTH

(BY BEULAH AMIDON)

YARDMEN

1. The switching yard of the XYZ Railroad at N employed 305 men. Two-thirds of the force was unskilled or semiskilled labor, while about 100 of these employees were highly skilled railroadmen who had been with the XYZ for from 2 to 19 years. Partly as an experiment in increasing speed and efficiency, partly to meet a local problem of smoke and noise nuisance within a growing municipality, the XYZ electrified its switching yard. As a result, 151 men were able to do the work formerly requiring 305. Also, it was found that less skill and experience on the part of the switching-yard force was called for under the new conditions. Accordingly, 154 men were laid off on a week's notice. The larger proportion of these were from among the higher paid group, most of whom had spent their working life acquiring the skill to hold the jobs from which they were dismissed.

GLASSWORKERS

2. The Owens machine, which mechanized the ancient glass-blowing industry, is a "semiautomatic" machine. More recently, it has been supplemented by a feed-and-flow machine, which makes several divisions of the glass industry practically automatic. It has been estimated that this machine does in 1 hour what it would take 41 workers to do by hand, and with it, 3 operatives can accomplish what 10 could do with the semiautomatic equipment. During the past winter, the D Glass Works, which turns out bottles in various stock sizes, installed the most up-to-date automatic machines. This more than trebled its output. The L Bottle Works, the chief competitor of D tried feebly to maintain its hold on its market. In less than 6 months the L works shut down, throwing 213 men and women out of work in the middle of the slack season for the industries in that community.

STEELWORKERS

3. The use of machinery and power has advanced rapidly throughout the steel industry in the past few years. For example, 2 men now do the work done by 14 in charging furnaces; 7 men can cast as much pig iron as 60 could cast a decade ago; in the open-hearth operation, 1 man does the work of 40; 2 men now replace 128 in unloading

pig iron. By the use of such economies of time and manpower, the T. G. Steel Mills have decreased their personnel by more than 1,300 in the past 3 years. Simultaneously, the gross tonnage of steel produced by these mills increased from 1,730,724 in 1927 to 1,901,707 in 1928.

MACHINE HANDS

4. The L. Shock Absorber Co. received the record order of its history some months ago. It was employing at that time 800 workers. It planned to take on a force of 2,000 more and so advertised; workers came flocking from 3 States. A thousand men were taken on, in groups of a hundred or less. Nine belts or lines were operated, and 400 units were considered a fair day's work for each line. But management began to work out more effective ways of using both machine power and man power and more effective methods of handling materials and equipment. Instead of taking on the second 1,000 workers, mechanical improvements were made, and various "speeding up" devices put into effect, including a "bonus" of a box of cigars to the line that exceeded 400 units. As a result, the day's output has been increased from 400 to 2,200 units with from 2 to 5 hours' overtime per day required to get out a day's work and receive a day's pay.

RUBBERWORKERS

5. Eight years ago the Blank Rubber Co. commenced a series of time studies and process studies, one of the results of which has been the installation of new and improved laborsaving appliances. During these years, it has increased its output from 32,000 units per day to 57,000 units per day, or about 78 percent. At the same time, the production force decreased from 24,000 men to 16,500, or about 30 percent. Much of this increased efficiency was the result of time studies and the rearrangement of various steps along the production line, but the larger part was due to the displacement of men by machines.

MUSICIANS

6. The Rialto Theater in a large eastern city had an orchestra of 40 trained musicians. The Rialto installed a "talking movie," and overnight these 40 musicians were out of a job. In the same city, another theater notified its 22 orchestra members that within a week their services would no longer be required, because of the installation of a "talkie."

SUGARWORKERS

7. One of the large sugar refineries on the eastern seaboard erected a new plant about 4 year ago designed to produce 2 million pounds of refined sugar a day and employ 500 men. By improved manufacturing methods, supplemented by a change in the method of wage payment, a force of 400 men is now producing 3,500,000 pounds daily.

MACHINISTS

8. When young John Doe succeeded his father as head of the Doe Machine Shops, he decided to "get away from mossback methods" and installed the most modern equipment obtainable. As part of this revolution, 1 man with a "gang" of 7 semiautomatic machines now replaces 25 skilled machinists. Thirty workers with 10 machines are doing the work of 220 workers with 20 old-type machines. Some of these men had spent all their working lives in the Doe shops. None of them was given more than a week's notice before being laid off.

REPAIRMEN

9. In railway repair shops, four men with oxyacetylene torches can do in from 3 to 7 hours what it formerly took eight men 3 weeks to perform in repairs to locomotives.

SHEET METAL WORKERS

10. The Blank Sheet & Tube Co. has increased its output and cut its labor bills by installing a tramrail crane, with the help of which 3 workers now do the work of 28. A week before the crane was in place, 25 men were notified that their services were no longer needed. The same concern has equipped 5 men with tractors to replace 48 men as crane loaders.

TOOLMAKERS

11. The Jones Tool Co. makes drop-forged handtools, including hammers, wrenches, chisels, punches, screwdrivers, and so on. It used to take from 3 to 4 days from the time the blank reached the forging hammers till the tool reached the stockroom. Then a new cycle was established, with equipment to keep the work moving almost constantly from unloading stock from cars to laying down finished tools on the platform. In 1922 the company had 16 drop hammers and employed 480 men. Last year it had 22 drop hammers and a working force of 280. Output had increased between 30 and 40 percent.

TEXTILE WORKERS

12. In 1927 the R. F. Textile Mills employing 5,100 workers produced 137,000 yards of woolens of a certain width, texture, and quality. During the slack season, new and improved machinery was installed and an efficiency system, suggested by an engineering expert, was introduced. In 1928, a labor force of 3,000 produced the same yardage, of the same width, texture, and quality. The 2,100 displaced workers were added to an already acute unemployment situation in a disorganized textile market.

[From Survey, Apr. 1, 1929]

"LET OUT"

(By Isador Lubin)

At the suggestion of the Senate Committee on Labor and Education, the Institute of Economics of Brookings Institution has been making a broad study of industrial unemployment. This article is based on one section of the study—a survey of 754 workers "let out" during the 12 months preceding September 1928

"You are hereby notified that after April 1 your services will no longer be required." Neatly typed on his employer's stationery, this was what William Brown found in his pay envelope one day toward the end of last March.

Brown had been with the firm nearly 2 years; he had always shown up before the working whistle blew; he had never knocked off a day. It was his ambition that the boss would never "have anything on him." He'd done his best to make sure that through no fault of his own would he ever be fired. Nor was he. He was let out because the company's work was slack.

Brown had been out of work before, and he knew what was involved. The last time, back in 1926, it had meant 4 months of trudging from one factory to another. It had meant studying the want ads every night, getting up at 6 in the morning to be at the gate before the crowd got there, and then finding some way to kill the rest of the day. The employment man rarely started interviews before 8, and by the time he had seen Brown it was usually between 9 and 10 o'clock. After that, it was not worth while trying other factories; the hiring was over for the day.

He had tried several private employment agencies, but without success. Somebody had suggested the free State employment agency, a branch of which was located in his city, but it reported no calls for men to operate a lathe. The employers of the city of T— asked occasionally for a gang of unskilled men, but when it came to experienced machine operators they preferred to do their own picking from the crowds that gathered at the gate in response to newspaper ads.

All this had left a haunting impression. Brown could not close his mind to troubled memories:

> That last month of unemployment sure was tough for the wife and kids. * * * At first, things weren't so bad. We thought the $300 we had put away would keep things going until a new job turned up. At the end of the first month, the $300 did not look so big. * * * Forty dollars sure is a lot of rent, but what's a man with three children going to do? At that, four rooms are crowded. * * * Little Jack's sickness. Twenty dollars wasn't so much for the doctor. He was over six or seven times. Still * * *

During the last month of unemployment every nickel looked big. * * * It was funny to find yourself setting the alarm 30 minutes early, to have time to walk over to the west end in answer to a want ad. * * * The rent money couldn't be touched. * * * Alice had to get old Huber to trust her for the groceries. * * * I didn't realize when I told Alice 6 months earlier to buy all her stuff at Huber's that old Huber would have to come to our rescue before long. * * * Can't make me believe you save anything in the long run buying from chainstores * * * and when hard times come along you could starve to death for all the cash-and-carry cares. * * * What's a man with a wife and kids to do when he loses his job if these chainstores drive out all the neighborhood grocers? * * * It looked for a while like we'd have to write to Alice's brother up in Illinois to ask a loan. * * * Luck finally changed. * * *

Over 18 months now, been averaging around $35 a week. Alice has been putting $5 into the Building & Loan Association every Monday. Almost $400 saved up. Things sure have been going smooth.

Next Saturday—let out.

William Brown is one of some 2 million workers who were out of employment in the spring of 1928. What became of him?

Immediately after the closing whistle, March 31, Brown asked his foreman why he had been "let out." He was told that orders for dredging machinery were slow and that the force had to be curtailed. There was no complaint as to his conduct or efficiency. If orders picked up, perhaps they could use him again. It might be worth his while to drop in now and then and see whether there was anything doing. If he hit the right time, he might find something.

Judging by the findings of some who have looked into the unemployment situation of the past 18 months, Brown's problem should have been a relatively simple one. American industry has been expanding. New industries and trades have been springing up, taking on more and more men. During the past 7 years the changing standards of American life have brought into our service industries, for example, over 1,100,000 additional workers who feed us in restaurants, make our beds, or bow obsequiously to us in hotels, cut our hair, manicure our nails, wash our clothes in laundries, and clean and press our suits and dresses.

The new lines of activity, in short, are ready to absorb those workers who have been discharged from the older industries. Indeed, they are doing more than that; they are taking on more people than the older industries are letting out. Recent figures show that between 1920 and 1927 the net increase in workers employed in all occupations was 817,000. Surely, William Brown should not have found much difficulty in getting a new job.

When Brown was interviewed in August 1928, he was still unemployed. For almost 5 months he had been following the want ads, making personal inquiries, and calling at employment agencies. Thirty-seven years of age, well built and vigorous, he impresses one as an intelligent and willing workman. An interview with his former foreman confirmed the fact that his discharge was due to curtailed production and that he had been industrious and faithful. If work picked up again the firm would like to have him back.

By the middle of the summer, Brown had spent all his savings and had had to ask for financial help from a brother-in-law. He was determined to find an opening where he could use his skill and training, for he was loath to sacrifice the results of his whole working life. Dismayed by his inability to secure employment in an industrial plant, in desperation he finally got a job mowing lawns. He could do this during the late mornings and the afternoons and thus had the early hours of the day in which to seek permanent work. When seen by an investigator he had 10 lawns to mow each week, and he thought this work would last until October. The small income from this source, with about $4 which he earned at a gas station Sundays, partially met the family needs. In August, Mrs. Brown, determined that her husband should not accept permanent employment which would place him in the ranks of the unskilled, went to work in a laundry. The children were left in the care of neighbors. The combined earnings of the Browns were close to $25 a week. They were unable to put aside anything for sickness or other emergencies.

In a survey of 754 workers known to have been discharged in certain factories in 3 industrial centers during the 12 months preceding September 1, 1928, it was found that almost half of the persons interviewed were in a position not unlike that of William Brown. The survey included no persons unemployed for causes over which they had control. After a careful check of employers' records, all voluntary quits, and discharges for inefficiency or insubordination, were eliminated. The earnings of the group ranged from $12 to $60 a week. More than 20 industries were represented, the occupational lists including riveters, wire rollers, grinders, pipefitters, weavers, spinners, beltmakers, punch press operators, cement mixers, musicians, cabinetmakers, general workers in yards, gatetenders, general utility men, a draftsman. They were of all ages, 118 under 25 years of age, 77 over 45, the majority between 21 and 45.

Three hundred and forty four of these seven hundred and fifty-four workers—that is 45.5 percent—were still out of employment when interviewed late last summer. Twenty-nine of them, 3.8 percent, had for more than a year been unable to find permanent jobs. Sixty-three had been without regular work for over 8 months, and approximately one-third had been idle for more than 3 months.

To exist during the months of idleness, 102 of these workers had taken on short-time jobs of one sort or another. One punch press operator, formerly employed in a metal stamping plant, found work now and then "simonizing" automobiles for private owners. A former truckdriver, aged 33, became a telegraph messenger boy. An iron caster was forced to turn to selling newspapers at the age of 41. A skilled textile operator distributed political circulars for State primary candidates.

In a surprisingly large number of cases, more than two-thirds in fact, savings were available during the period immediately following discharge. Very frequently close relatives supplemented the family income. Here and there, though the proportion of instances was relatively small, the worker called upon the local municipal welfare department for aid. Several cases were found where, in return for such aid, the unemployed worked at the municipal poor farms several days each week. In some cases also, private charitable organizations were the main source of income.

The experiences of the fortunate workers who found permanent employment were, in many respects, similar to those of the workers still unemployed when interviewed. Getting a new job was not in any sense a simple matter. Of the 410 persons who had found permanent work by September 1, 9 had secured their jobs only after 11 months of searching. Seventy had been unemployed for 6 months or more, and 171 for more than 3 months. Only 47 had been out of work for less than a month between jobs. That is to say, only 11.5 percent of the workers who had been able to get steady employment found it possible to do so within 30 days after their discharge. Approximately 52 percent, on the other hand, had been forced to remain idle for more than a fourth of the year before getting relocated.

Less than 10 percent of the men got their old jobs back after discharge. The remainder were in most cases forced to take employment which had little or no relation to the type of work for which the individual concerned had been trained. Former cement workers, wire rollers and operators of grinding machinery were found as countermen in lunchrooms. A boilerworker, and a trained cutter with 34 years of experience in a clothing factory, had become gasoline station attendants. One of these men had been earning $35 a week at his old job but after 11 months of idleness he took the filling-station job at $20. Other cutters had become watchmen in warehouses, timekeepers in steel plants, and clerks in meat markets. One licensed stationary engineer ultimately found a job as caretaker in a public park; an operator of a welding machine after 3 months of unemployment became a farmhand; and an experienced spinner took on the job of radio repairman. A skilled woodworker employed for many years in a piano factory, was mixing salves for a drug manufacturer at $20 a week. Seven of the men were frank to admit that after months of enforced loafing they had taken up bootlegging.

Length of unemployment

Length of time unemployed	Those who found new employment		Those still unemployed Sept. 1, 1928	
	Number of workers	Cumulative number of workers	Number of workers	Cumulative number of workers
Under 1 month	47		43	
1 month to 2 months	66	113	40	83
2 months to 3 months	66	179	37	120
3 months to 4 months	60	239	34	154
4 months to 5 months	43	282	26	180
5 months to 6 months	30	312	22	202
6 months to 7 months	28	340	27	229
7 months to 8 months	23	363	18	247
8 months to 9 months	18	381	31	278
9 months to 10 months	10	391	19	297
10 months to 11 months	7	398	7	304
11 months to 12 months	3	401	8	312
Over 1 year	6	407	29	341
No data	3	410	3	344

Only 188 (45 percent of the workers who found employment) had been able to secure jobs in any way similar to those formerly held. Two-thirds of the reemployed were found in what to them were new industries. Not only did they have to adjust themselves to a new environment but also to a new type of product.

In a majority of cases, new employment was found only at a sacrifice in income. Eighteen percent of the workers when interviewed were earning more at their newly acquired work than when last steadily employed. The larger number, however (48 percent to be exact), received lower wages on the new jobs than on the old. In a few cases, earnings were reduced as much as 50 percent. In a majority of cases, they ranged from 60 to 90 percent of the previous earnings. In less than one-third of the cases the wage rates in the new employment were just about equal to what the workers had received on their former jobs.

It can hardly be doubted that finding a new job has become a serious problem for the dispossessed worker. For the skilled who do not want to join the ranks of common labor, the problem is particularly acute. When unemployment among this class is caused by new technique or the substitution of machinery for human labor, the opportunities for finding work for which the workers have been trained become cumulatively restricted.

It is quite evident from the limited number of cases interviewed that no adequate machinery is available for aiding the dispossessed in finding new employment. The modern employer does not use the public employment exchange. By depending on the newspaper ad, he places the brunt of the search for employment upon the worker. Recent experiences of firms which have attempted to cooperate with some of the public employment exchanges lead to one to sympathize with their attitude toward these agencies. Not until we have a widespread, coordinated employment-exchange system with an adequate, trained staff can we hope to get employers to use public employment offices in meeting their labor needs.

Earnings of workers on new jobs secured before September 1928, as compared with earnings in last permanent employment

Item	Workers having higher income	Workers having lower income	Workers having same income	No information
Number	97	197	111	25
Percent of those who secured jobs	18.8	48.0	27.1	6.1

Whether we can hope for some sort of insurance to tide the unemployed over the period of enforced idleness, yet remains to be seen. Perhaps the experience of the few enlightened organizations which have seriously attacked the problem of making provision for their unemployed workers will in the near future stimulate sufficient interest in unemployment insurance to lead to some sort of public action.

[From "The Crisis of the Old Order," Houghton Mifflin Co., Publishers]

CRASH

(By Arthur M. Schlesinger, Jr.)

But the new era knew no skepticism. The Nation had reached, it seemed, a permanent plateau of prosperity. Business was expanding. Foreign trade was growing. The stock market was continuing to rise. And national leadership could not now be in more expert or safer hands. "For the first time in our history," wrote Foster and Catchings, "we have a President who, by technical training, engineering achievement, cabinet experience, and grasp of economic fundamentals, is qualified for business leadership." "I have no fears for the future of our country," said Herbert Hoover in his inaugural address in March 1929. "It is bright with hope."

There remained a few discordant voices, anxious in the main over the stock market boom. But the President regarded agricultural relief and tariff revision as the more pressing questions. In the spring of 1929, he summoned a special session of the Congress to deal with these issues. The session was not a success. Hoover's agricultural program did not satisfy the farm bloc, though Congress, after vehement debate, adopted the President's recommendations and set up a new agency, the Federal Farm Board. The Board's purpose was to control the flow of commodities to the market; one provision authorized the establishment of stabilization corporations as a means of controlling temporary surpluses. Then the session, after wrangling from April to November, adjourned without taking action on the tariff.

In other respects, Hoover as President tried to apply the policies he had developed as Secretary of Commerce. In August 1929, he moved into the conservation field, proposing that the unreserved public lands, as well as all new reclamation projects and related irrigation matters, be withdrawn from national control. The States, he said, were "more competent to manage much of these affairs than is the Federal Government," and his aim was to place the local communities—and presumably the strongest interests in them—in control of their own natural resources. "Well," remarked one newspaper, "conservation was a pretty dream while it lasted."

The President's attitude toward utilities regulation was similar. Certain that State regulation and private responsibility were enough, he had no misgivings about making the statutory appointment of the Secretary of War, James W. Good, the former counsel for the Alabama Power Co., as head of the Federal Power Commission. When the Commission was reorganized in 1930, staff members whose zeal had irritated the utilities were discharged; one of them, the former solicitor of the Commission, told the press that Hoover had personally intervened to prevent the rigorous application of the Federal Water Power Act to the private companies.

II

Yet most Americans remained more interested in the stock market than in any other economic question; and for a few interest was now beginning to turn into concern. Early in 1929, the Federal Reserve Board, under continuing pressure from the New York Federal Reserve Bank, finally consented to warn member banks that they should not lend money for speculative purposes. But this reliance on moral suasion did not satisfy conservative members of the financial community, like Dr. Adolph Miller of the Board, Paul M. Warburg of Kuhn, Loeb, and Russell Leffingwell of Morgan's. Such men wanted the Board to slow down the boom by raising the discount rate to 6 percent.

Expansionists like Foster and Catchings, however, argued that a restrictive policy might well induce deflation. The Board had already, they felt, created "a state of mind which breeds depression." And it was certainly true that reducing the interest rate was a clumsy way of combating the boom. So long as the stock market offered the highest returns, it was bound to have first call on funds. In the short run, a higher interest rate might thus slow down real investment faster than speculation. And in the longer run, a higher interest rate would tend, through the capitalization process, to bring down the prices of all capital assets and thus to discourage real investment even further. And so the debate continued through the spring and summer. The President, preoccupied with other issues and not clear in his own mind whether he wanted to stop the easy-money policy, did little but watch the Board in its vacillating course.

By the summer of 1929 some danger signs were apparent—for example, the startling decline in building contracts. Net investment for residential construction for the entire year sank to $216 million, over a billion dollars less than 1928. At the same time, there was an alarming growth in business inventories, more than trebling from $500 million in 1928 to $1,800 million in 1929. Concurrently, the rate of consumer spending was slackening; it had risen at a rate of 7.4 percent in 1927–28 but slowed down to an inauspicious 1.5 percent in 1928–29.

By midsummer 1929, these developments began to be discernible in production and price indexes. Industrial production reached its height in June and dropped off in July; employment rose till July, building began to fall off, and, week after week, wholesale commodity prices dropped with ominous regularity. In August the Federal Reserve Board strengthened deflationary tendencies by finally agreeing to raise the discount rate to 6 percent.

But the stock market, riding on the impetus of half a dozen years of steady increase, paid little attention to the indexes. Early in September stock exchange price averages reached their highest point of all time. A. T. & T. was up to 304; General Electric up to 396, having more than tripled its price in 18 months. By the beginning of October, brokers' loans—an index of margin buying—topped the $6 billion mark. Business leaders meanwhile completed with each other in expressions of optimism, and Washington displayed no concern.

III

September saw some minor setbacks. Yet through October brokers looked optimistically ahead to the moment when stocks would resume their upward climb. Then on Wednesday, October 23, there was an unexpected and drastic break, with securities suddenly unloaded in quantity, prices falling, and acute pressure on margin traders. For a moment, Wall Street was shaken, and the anxiety was suddenly infectious. The next day, selling orders began to stream down on the stock exchange in unprecedented volume, and prices took a frightening plunge. For a few ghastly moments the exchange saw stocks on sale for which there were no buyers at any price. As panic spread, the exchange decided to close the visitors' gallery; among the observers that morning had been the former British Chancellor of the Exchequer, Winston S. Churchill. The tickers fell helplessly behind in recording transactions on the floor; and, as the confusion communicated itself through the country, the instinct to unload threatened to turn into a frenzy. Down, down, down: how long could the market take it?

Around noon a group of worried men gathered in the office of Thomas W. Lamont of Morgan's; it included four of New York's great bankers (among them, Charles E. Mitchell of the National City Bank and Albert H. Wiggin of the Chase). Each was prepared to contribute $40 million on behalf of their banks to bolster the market. An hour or so later Richard Whitney, a broker for Morgan's and vice president of the exchange, walked onto the floor to bid 205 for 25,000 shares of U.S. Steel, then available at 193½. For a moment, backed by the bankers' pool, stability seemed to return.

The next day came a torrent of reassuring statements—from bankers, from economists, from the Treasury Department, above all, from the White House itself. "The fundamental business of the country," said President Hoover, "that is, production and distribution of commodities, is on a sound and prosperous basis." And, as prices held for the rest of the week, the bankers quietly fed back into the market the stocks they had bought on Black Thursday, strengthening their own position against further storms. (Whitney had not even bought the United States Steel stock; the gesture of bidding was enough.)

The weekend gave the forces of fear and liquidation time to do their work. As the banks had protected themselves against the brokers, so the brokers now sought to protect themselves against their customers, and especially against those they were carrying on the margin. The result on Monday was a new outburst of forced sales, a new explosion of gloom and panic. On that day alone, General Motors stock lost nearly $2 billion in paper value. The market closed with foreboding. The next day the exchange had barely opened when the rout began. Soon it was like an avalanche, vast numbers rushing to get out of the market with whatever could be salvaged from the general debacle. Brokers sold stock at any price they could get. By noon 8 million shares had changed hands; by closing time, the exchange had broken all records with an unprecedented 16 million shares. During the day, the governors of the exchange had called a meeting, crowding into a secluded office, sitting and standing on tables, lighting cigarettes and nervously discarding them till the room was stale with smoke. Most wanted to close the exchange. But the governors decided that it must be kept open.

For a moment October 30—Wednesday—brought new hope. The newspapers were once again plastered with optimism: Dr. Julius Klein, the President's personal economic soothsayer, John D. Rockefeller, John J. Raskob, all beamed with confidence about the future. As prices steadied, Richard Whitney took advantage of the interval of calm to announce that the exchange would be open only briefly on Thursday and not at all for the rest of the week. But the flickering hope of stabilization turned out to the final delusion. *Variety* summed it up in the headline of its issue on October 30: "Wall St. Lays an Egg."

When the exchange reopened the next week, the downward grind resumed, leaving in its wake a trail of exploded values. By mid-November the financial community began to survey the wreckage. In a few incredible weeks, the stocks listed on the New York Exchange had fallen over 40 percent in value—a loss on paper of $26 billion. The new era had come to its dismaying end.

IV

As perspective has enabled economists to disentangle the causes of the collapse, the following points have come to seem most crucial:

(1) Management's disposition to maintain prices and inflate profits while holding down wages and raw material prices meant that workers and farmers were denied the benefits of increases in their own productivity. The consequence was the relative decline of mass purchasing power. As goods flowed out of the expanding capital plant in ever greater quantities, there was proportionately less and less cash in the hands of buyers to carry the goods off the market. The pattern of income distribution, in short, was incapable of long maintaining prosperity.

(2) Seven years of fixed capital investment at high rates had "overbuilt" productive capacity (in terms of existing capacity to consume) and had thus saturated the economy. The slackening of the automotive and building industries was symptomatic. The existing rate of capital formation could not be sustained without different governmental policies—policies aimed not at helping those who had money to accumulate more but at transferring money from those who were letting it stagnate in savings to those who would spend it.

(3) The sucking off into profits and dividends of the gains of technology meant the tendency to use excess money for speculation, transforming the stock exchange from a securities market into a gaming house.

(4) The stock market crash completed the debacle. After Black Thursday, what rule was safe except "Sauve qui peut?" And businessmen, in trying to save themselves, could only wreck their systems in trying to avoid the worst, they rendered the worst inevitable. By

shattering confidence, the crash knocked out any hope of automatic recovery.

(5) In sum, the Federal Government had encouraged tax policies that contributed to oversaving, monetary policies that were expansive when prices were rising and deflationary when prices began to fall, tariff policies that left foreign loans as the only prop for the export trade, and policies toward monopoly which fostered economic concentration, introduced rigidity into the markets and anaesthetized the price system. Representing the businessmen, the Federal Government had ignored the dangerous imbalance between farm and business income, between the increase in wages and the increase in productivity. Representing the financiers, it had ignored irresponsible practices in the securities market. Representing the bankers, it had ignored the weight of private debt and the profound structural weaknesses in the banking and financial system. Seeing all problems from the viewpoint of business, it had mistaken the class interest for the national interest. The result was both class and national disaster.

[From "Only Yesterday," Harper & Bros., Publishers]

CRASH

(BY FREDERICK LEWIS ALLEN)

Early in September the stock market broke. It quickly recovered, however; indeed, on September 19 the averages as compiled by the New York Times reached an even higher level than that of September 3. Once more it slipped, farther and faster, until by October 4 the prices of a good many stocks had coasted to what seemed first-class bargain levels. Steel, for example, after having touched 261¾ a few weeks earlier, had dropped as low as 204; American Can, at the closing on October 4, was nearly 20 points below its high for the year; General Electric was over 50 points below its high; Radio had gone down from 114¾ to 82½.

A bad break, to be sure, but there had been other bad breaks, and the speculators who escaped unscathed proceeded to take advantage of the lesson they had learned in June and December of 1928 and March and May of 1929: when there was a break it was a good time to buy. In the face of all this tremendous liquidation, brokers' loans as compiled by the Federal Reserve Bank of New York mounted to a new high record on October 2, reaching $6,804 million—a sure sign that margin buyers were not deserting the market but coming into it in numbers at least undiminished. (Part of the increase in the loan figure was probably due to the piling up of unsold securities in dealers' hands, as the spawning of investment trusts and the issue of new common stock by every manner of business concern continued unabated.) History, it seemed, was about to repeat itself, and those who picked up Anaconda at 109¾ or American Telephone at 281 would count themselves wise investors. And sure enough, prices once more began to climb. They had already turned upward before that Sunday in early October when Ramsay MacDonald sat on a log with Herbert Hoover at the Rapidan camp and talked over the prospects for naval limitation and peace.

Something was wrong, however. The decline began once more. The wiseacres of Wall Street, looking about for causes, fixed upon the collapse of the Hatry financing group in England (which had led to much forced selling among foreign investors and speculators), and upon the bold refusal of the Massachusetts Department of Public Utilities to allow the Edison Co. of Boston to split up its stock. They pointed, too, to the fact that the steel industry was undoubtedly slipping, and to the accumulation of "undigested" securities. But there was little real alarm until the week of October 21. The consensus of opinion, in the meantime, was merely that the equinoctial storm of September had not quite blown over. The market was readjusting itself into a "more secure technical position."

SECTION 2

In view of what was about to happen, it is enlightening to recall how things looked at this juncture to the financial prophets, those gentlemen whose wizardly reputations were based upon their supposed ability to examine a set of graphs brought to them by a statistician and discover, from the relation of curve to curve and index to index, whether things were going to get better or worse. Their opinions differed, of course; there never has been a moment when the best financial opinion was unanimous. In examining these opinions, and the outgivings of eminent bankers, it must furthermore be acknowledged that a bullish statement cannot always be taken at its face value: few men like to assume the responsibility of spreading alarm by making dire predictions, nor is a banker with unsold securities on his hands likely to say anything which will make it more difficult to dispose of them, unquiet as his private mind may be. Finally, one must admit that prophecy is at best the most hazardous of occupations. Nevertheless, the general state of financial opinion in October 1929 makes an instructive contrast with that in February and March 1928, when, as we have seen, the skies had not appeared any too bright.

Some forecasters, to be sure, were so unconventional as to counsel caution. Roger W. Babson, an investment adviser who had not always been highly regarded in the inner circles of Wall Street, especially since he had for a long time been warning his clients of future trouble, predicted, early in September, a decline of 60 or 80 points in the averages. On October 7 the Standard Trade & Securities Service of the Standard Statistics Co. advised its clients to pursue an "ultraconservative policy," and ventured this prediction: "We remain of the opinion that, over the next few months, the trend of common stock prices will be toward lower levels." Poor's Weekly Business and Investment Letter spoke its mind on the "great common stock delusion" and predicted "further liquidation in stocks." Among the big bankers, Paul M. Warburg had shown months before this that he was alive to the dangers of the situation. These commentators—along with others such as the editor of the Commercial and Financial Chronicle and the financial editor of the New York Times—would appear to deserve the 1929 gold medals for foresight.

But if ever such medals were actually awarded, a goodly number of leather ones would have to be distributed at the same time. Not necessarily to the Harvard Economic Society, Although on October 19, after having explained that business was "facing another period of readjustment," it predicted that "if recession should threaten serious consequences for business (as is not indicated at present) there is little doubt that the Reserve System would take steps to ease the money market and so check the movement." The Harvard soothsayers proved themselves quite fallible: as late as October 26, after the first wide-open crack in the stock market, they delivered the cheerful judgment that "despite its severity, we believe that the slump in stock prices will prove an intermediate movement and not the precursor of a business depression such as would entail prolonged further liquidation." This judgment turned out, of course, to be ludicrously wrong; but, on the other hand, the Harvard Economic Society was far from being really bullish. Nor would Col. Leonard P. Ayres, of the Cleveland Trust Co. get one of the leather medals. He almost qualified when, on October 15, he delivered himself of the judgment that "there does not seem to be as yet much real evidence that the decline in stock prices is likely to forecast a serious recession in general business. Despite the slowing down in iron and steel production, in automobile output, and in building, the conditions which result in serious business depressions are not present." But the skies, as Colonel Ayres saw them, were at least partly cloudy. "It seems probable," he said, "that stocks have been passing not so much from the strong to the weak as from the smart to the dumb."

Prof. Irving Fisher, however, was more optimistic. In the newspapers of October 17 he was reported as telling the Purchasing Agents Association that stock prices had reached "what looks like a permanently high plateau." He expected to see the stock market, within a few months, "a good deal higher than it is today." On the very eve of the panic of October 24 he was further quoted as expecting a recovery in prices. Only 2 days before the panic, the Boston News Bureau quoted R. W. McNeel, director of McNeel's Financial Service, as suspecting "that some pretty intelligent people are now buying stocks." "Unless we are to have a panic—which no one seriously believes—stocks have hit bottom," said Mr. McNeel. And as for Charles E. Mitchell, chairman of the great National City Bank of New York, he continuously and enthusiastically radiated sunshine. Early in October, Mr. Mitchell was positive that, despite the stock market break, "The industrial situation of the United States is absolutely sound and our credit situation is in no way critical. * * * The interest given by the public to brokers' loans is always exaggerated," he added. "Altogether too much attention is paid to it." A few days later Mr. Mitchell spoke again: "Although in some cases speculation has gone too far in the United States, the markets generally are now in a healthy condition. The last 6 weeks have done an immense amount of good by shaking down prices. * * * The market values have a sound basis in the general prosperity of our country." Finally, on October 22, 2 days before the panic, he arrived in the United States from a short trip to Europe with these reassuring words: "I know of nothing fundamentally wrong with the stock market or with the underlying business and credit structure. * * * The public is suffering from 'brokers' loanitis.' "

Nor was Mr. Mitchell by any means alone in his opinions. To tell the truth, the chief difference between him and the rest of the financial community was that he made more noise. One of the most distinguished bankers in the United States, in closing a deal in the early autumn of 1929, said privately that he saw not a cloud in the sky. Habitual bulls like Arthur Cutten were, of course, insisting that they were "still bullish." And the general run of traders presumably endorsed the view attributed to "one large house" in mid-October in the Boston News Bureau's "Broad Street Gossip," that "the recent break makes a firm foundation for a big bull market in the last quarter of the year." There is no doubt that a great many speculators who had looked upon the midsummer prices as too high were now deciding that deflation had been effected and were buying again. Presumably most financial opinion agreed also with the further statement which appeared in the "Broad Street Gossip" column on October 16, that "business is now too big and diversified, and the country too rich, to be influenced by stock market fluctuations"; and with the editorial opinion of the News Bureau, on October 19, that "whatever recessions (in business) are noted, are those of the runner catching his breath. * * * The general condition is satisfactory and fundamentally sound."

The disaster which was impending was destined to be as bewildering and frightening to the rich and powerful and the customarily sagacious as to the foolish and unwary holder of 50 shares of margin stock.

SECTION 3

The expected recovery in the stock market did not come. It seemed to be beginning on Tuesday, October 22, but the gains made during the day were largely lost during the last hour. And on Wednesday, the 23d, there was a perfect Niagara of liquidation. The volume of trading was over 6 million shares, the tape was 104 minutes late when the 3 o'clock gong ended trading for the day, and the New York Times averages for 50 leading railroad and industrial stocks lost 18.24 points—a loss which made the most abrupt declines in previous breaks look small. Everybody realized that an unprecedented number of margin calls must be on their way to insecurely margined traders, and that the situation at last was getting serious. But perhaps the turn would come tomorrow. Already the break had carried prices down a good deal further than the previous breaks of the past 2 years. Surely it could not go on much longer.

The next day was Thursday, October 24.

On that momentous day stocks opened moderately steady in price, but in enormous volume. Kennecott appeared on the tape in a block of 20,000 shares, General Motors in another of the same amount. Almost at once the ticker tape began to lag behind the trading on the floor. The pressure of selling orders was disconcertingly heavy. Prices were going down * * *. Presently they were going down with some rapidity * * *. Before the first hour of trading was over, it was already apparent that they were going down with an altogether unprecedented and amazing violence. In brokers' officers all over the country, tape watchers looked at one another in astonishment and perplexity. Where on earth was this torrent of selling orders coming from?

The exact answer to this question will probably never be known. But it seems probable that the principal cause of the break in prices during that first hour on October 24 was not fear. Nor was it short selling. It was forced selling. It was the dumping on the market of hundreds of thousands of shares of stock held in the name of miserable traders whose margins were exhausted or about to be exhausted. The gigantic edifice of prices was honeycombed with speculative credit and was now breaking under its own weight.

Fear, however, did not long delay its coming. As the price structure crumbled there was a sudden stampede to get out from under. By 11 o'clock traders on the floor of the stock exchange were in a wild scramble to "sell at the market." Long before the lagging ticker could tell what was happening, word had gone out by telephone and telegraph that the bottom was dropping out of things, and the selling orders redoubled in volume. The leading stocks were going down 2, 3, and even 5 points between sales. Down, down, down * * *. Where were the bargain hunters who were supposed to come to the rescue at times like this? Where were the investment trusts, which were expected to provide a cushion for the market by making new purchases at low prices? Where were the big operators who had declared that they were still bullish? Where were the powerful bankers who were supposed to be able at any moment to support prices? There seemed to be no support whatever. Down, down, down. The roar of voices which rose from the floor of the exchange had become a roar of panic.

United States Steel had opened at 205½. It crashed through 200 and presently was at 193½. General Electric, which only a few weeks before had been selling above 400, had opened this morning at 315—now it had slid to 283. Things were even worse with Radio: opening at 68¾, it had gone dismally down through the sixties and the fifties and forties to the abysmal price of 44½. And as for Montgomery Ward, vehicle of the hopes of thousands who saw the chainstore as the harbinger of the new economic era, it had dropped headlong from 83 to 50. In the space of 2 short hours, dozens of stocks lost ground which it had required many months of the bull market to gain.

Even this sudden decline in values might not have been utterly terrifying if people could have known precisely what was happening at any moment. It is the unknown which causes real panic.

Suppose a man walked into a broker's branch office between 12 and 1 o'clock on October 24 to see how things were faring. First he glanced at the big board, covering one wall of the room, on which the day's prices for the leading stocks were supposed to be recorded. The low and last figures written there took his breath away, but soon he was aware that they were unreliable; even with the wildest scrambling, the boys who slapped into place the cards which recorded the last prices shown on the ticker could not keep up with the changes; they were too numerous and abrupt. He turned to the shining screen across which ran an uninterrupted procession of figures from the ticker. Ordinarily the practiced tape watcher could tell from a moment's glance at the screen how things were faring, even though the exchange now omitted all but the final digit of each quotation. A glance at the board, if not his own memory, supplied the missing digits. But today, when he saw a run of symbols and figures like

R	WX
6.5½.5.4	9.8⅞¾½¼.8.7½.7.

he could not be sure whether the price of "6" shown for Radio meant 66 or 56 or 46; whether Westinghouse was sliding from 189 to 187 or from 179 to 177. And presently he heard that the ticker was an hour and a half late; at 1 o'clock it was recording the prices of half past 11. All this that he saw was ancient history. What was happening on the floor now?

At 10-minute intervals the bond ticker over in the corner would hammer off a list of selected prices direct from the floor, and a broker's clerk would grab the uncoiling sheet of paper and shear it off with a pair of scissors and read the figures aloud in a mumbling expressionless monotone to the white-faced men who occupied every seat on the floor and stood packed at the rear of the room. The prices which he read out were ten or a dozen or more points below those recorded on the ticker. What about the stocks not included in that select list? There was no way of finding out. The telephone lines were clogged as inquiries and orders from all over the country converged upon the stock exchange. Once in a while a voice would come barking out of the broker's rear office where a frantic clerk was struggling for a telephone connection, "Steel at 96!" Small comfort, however, to know what steel was doing; the men outside were desperately involved in many another stock than steel; they were almost completely in the dark, and their imaginations had free play. If they put in an order to buy or to sell, it was impossible to find out what became of it. The exchange's whole system for the recording of current prices and for communicating orders was hopelessly unable to cope with the emergency, and the sequel was an epidemic of fright.

In that broker's office, as in hundreds of other offices from one end of the land to the other, one saw men looking defeat in the face. One of them was slowly walking up and down, mechanically tearing a piece of paper into tiny and still tinier fragments. Another was grinning shamefacedly, as a small boy giggles at a funeral. Another was abjectly beseeching a clerk for the latest news of American & Foreign Power. And still another was sitting motionless, as if stunned, his eyes fixed blindly upon the moving figures on the screen, those innocent-looking figures that meant the smashup of the hopes of years * * *.

G.L. 8.7.5.2.1.90.89.7.6. AWW.
3.2½.2. JMP. 6.5.3.2½

A few minutes after noon, some of the more alert members of a crowd which had collected on the street outside the stock exchange, expecting they knew not what, recognized Charles E. Mitchell, erstwhile defender of the bull market, slipping quietly into the offices of J. P. Morgan & Co. on the opposite corner. It was scarcely more than 9 years since the House of Morgan had been pitted with the shrapnel fire of the Wall Street explosion; now its occupants faced a different sort of calamity equally near at hand. Mr. Mitchell was followed shortly by Albert H. Wiggin, head of the Chase National Bank; William Potter, head of the Guaranty Trust Co.; and Seward Prosser, head of the Bankers Trust Co. They had come to confer with Thomas W. Lamont of the Morgan firm. In the space of a few minutes these five men, with George F. Baker, Jr., of the First National Bank, agreed in behalf of their respective institutions to put up $40 million apiece to shore up the stock market. The object of the $240 million pool thus formed, as explained subsequently by Mr. Lamont, was not to hold prices at any given level, but simply to make such purchases as were necessary to keep trading on an orderly basis. Their first action, they decided, would be to try to steady the prices of the leading securities which served as bellwethers for the list as a whole. It was a dangerous plan, for with hysteria spreading there was no telling what sort of debacle might be impending. But this was no time for any action but the boldest.

The bankers separated. Mr. Lamont faced a gathering of reporters in the Morgan offices. His face was grave, but his words were soothing. His first sentence alone was one of the most remarkable understatements of all time. "There has been a little distress selling on the stock exchange," said he, "and we have held a meeting of the heads of several financial institutions to discuss the situation. We have found that there are no houses in difficulty and reports from brokers indicate that margins are being maintained satisfactorily." He went on to explain that what had happened was due to a "technical condition of the market" rather than to any fundamental cause.

As the news that the bankers were meeting circulated on the floor of the exchange, prices began to steady. Soon a brisk rally set in. Steel jumped back to the level at which it had opened that morning. But the bankers had more to offer the dying bull market than a Morgan partner's best bedside manner.

At about half-past 1 o'clock Richard Whitney, vice president of the exchange, who usually acted as floor broker for the Morgan interests, went into the "steel crowd" and put in a bid of 205—the price of the last previous sale—for 10,000 shares of Steel. He bought only 200 shares and left the remainder of the order with the specialist. Mr. Whitney then went to various other points on the floor, and offered the price of the last previous sale for 10,000 shares of each of 15 or 20 other stocks, reporting what was sold to him at that price and leaving the remainder of the order with the specialist. In short, within the space of a few minutes Mr. Whitney offered to purchase something in the neighborhood of $20 or $30 million worth of stock. Purchases of this magnitude are not undertaken by Tom, Dick, and Harry; it was clear that Mr. Whitney represented the bankers' pool.

The desperate remedy worked. The semblance of confidence returned. Prices held steady for a while; and though many of them slid off once more in the final hour, the net results for the day might well have been worse. Steel actually closed two points higher than on Wednesday, and the net losses of most of the other leading securities amounted to less than 10 points apiece for the whole day's trading.

All the same, it had been a frightful day. At 7 o'clock that night the tickers in a thousand brokers' offices were still chattering; not till after 7:08 did they finally record the last sale made on the floor at 3 o'clock. The volume of trading had set a new record—12,894,650 shares. ("The time may come when we shall see a 5-million-share day," the wisemen of the Street had been saying 20 months before.) Incredible rumors had spread wildly during the early afternoon—that 11 speculators had committed suicide, that the Buffalo and Chicago exchanges had been closed, that troops were guarding the New York Stock Exchange against an angry mob. The country had known the bitter taste of panic. And although the bankers' pool had prevented for the moment an utter collapse, there was no gainsaying the fact that the economic structure had cracked wide open.

SECTION 4

Things looked somewhat better on Friday and Saturday. Trading was still on an enormous scale, but prices for the most part held. At the very moment when the bankers' pool was cautiously disposing of as much as possible of the stock which it had accumulated on Thursday and was thus preparing for future emergencies, traders who had sold out higher up were coming back into the market again with new purchases, in the hope that the bottom had been reached. (Hadn't they often been told that "the time to buy is when things look blackest"?) The newspapers carried a very pretty series of reassuring statements from the occupants of the seats of the mighty; Herbert Hoover himself, in a White House statement, pointed out that "the fundamental business of the country—that is, production and distribution of commodities—is on a sound and prosperous basis." But toward the close of Saturday's session prices began to slip again. And on Monday the rout was underway once more.

The losses registered on Monday were terrific—17½ points for steel, 47½ for General Electric, 36 for Allied Chemical, 34½ for Westinghouse, and so on down a long and dismal list. All Saturday afternoon and Saturday night and Sunday the brokers had been struggling to post their records and go over their customers' accounts and sent out calls for further margin, and another avalanche of forced selling resulted. The prices at which Mr. Whitney's purchases had steadied the leading stocks on Thursday were so readily broken through that it was immediately clear that the bankers' pool had made a strategic retreat. As a matter of fact, the brokers who represented the pool were having their hands full plugging up the "air holes"in the list—in other words, buying stocks which were offered for sale without any bids at all in sight. Nothing more than this could have been accomplished, even if it could have been wisely attempted. Even six great banks could hardly stem the flow of liquidation from the entire United States. They could only guide it a little, check it momentarily here and there.

Once more the ticker dropped ridiculously far behind, the lights in the brokers' offices and the banks burned till dawn, and the telegraph companies distributed thousands of margin calls and requests for more collateral to back up loans at the banks. Bankers, brokers, clerks, messengers were almost at the end of their strength; for days and nights they had been driving themselves to keep pace with the most terrific volume of business that had ever descended upon them. It did not seem as if they could stand it much longer. But the worst was still ahead. It came the next day, Tuesday, October 29.

The big gong had hardly sounded in the great hall of the exchange at 10 o'clock Tuesday morning before the storm broke in full force. Huge blocks of stock were thrown upon the market for what they would bring; 5,000 shares, 10,000 shares appeared at a time on the laboring ticker at fearful recessions in price. Not only were innumerable small traders being sold out, but big ones, too, protagonists of the new economic era who a few weeks before had counted themselves millionaires. Again and again the specialist in a stock would find himself surrounded by brokers fighting to sell—and nobody at all even thinking of buying. To give one single example: During the bull market the common stock of the White Sewing Machine Co. had gone as high as 48; on Monday, October 28, it had closed at 11⅓. On that black Tuesday, somebody—a clever messenger boy for the exchange, it was rumored—had the bright idea of putting in an order to buy at 1—and in the temporarily complete absence of other bids he actually got his stock for a dollar a share. The scene on the floor was chaotic. Despite the jamming of the communication system, orders to buy and sell—mostly to sell—came in faster than human beings could possibly handle them; it was on that day that an exhausted broker, at the close of the session, found a large wastebasket which he had stuffed with orders to be executed and had carefully set aside for safekeeping—and then had completely forgotten. Within half an hour of the opening the volume of trading had passed 3 million shares, by 10 o'clock it had passed 8 million, by half past one it had passed 12 million, and when the closing gong brought the day's madness to an end the gigantic record of 16,410,030 shares had been set. Toward the close there was a rally, but by that time the average prices of 50 leading stocks, as compiled by the New York Times, had fallen nearly 40 points. Meanwhile there was a near panic in other markets—the foreign stock exchanges, the lesser American exchanges, the grain market.

So complete was the demoralization of the stock market and so exhausted were the brokers and their staffs and the stock exchange employees, that at noon that day, when the panic was at its worst, the governing committee met quietly to decide whether or not to close the exchange. To quote from an address made some months later by Richard Whitney: "In order not to give occasion for alarming rumors, this meeting was not held in the governing committee room but in the office of the president of the Stock Clearing Corp. directly beneath the stock exchange floor. * * * The 40 governors came to the meeting in groups of 2 and 3 as unobstrusively as possible. The office they met in was never designed for large meetings of this sort, with the result that most of the governors were compelled to stand, or to sit on tables. As the meeting progressed, panic was raging overhead on the floor. * * * The feeling of those present was revealed by their habit of continually lighting cigarettes, taking a puff or two, putting them out and lighting new ones—a practice which soon made the narrow room blue with smoke. * * *" Two of the Morgan partners were invited to the meeting and, attempting to slip into the building unnoticed so as not to start a new flock of rumors, were refused admittance by one of the guards and had to remain outside until rescued by a member of the governing committee. After some deliberation, the governors finally decided not to close the exchange.

It was a critical day for the banks, that Tuesday the 29th. Many of the corporations which had so cheerfully loaned money to brokers through the banks in order to obtain interest at 8 or 9 percent were now clamoring to have these loans called—and the banks were faced with a choice between taking over the loans themselves and running the risk of precipitating further ruin. It was no laughing matter to assume the responsibility of millions of dollars' worth of loans secured by collateral which by the end of the day might prove to have dropped to a fraction of its former value. That the call money rate never rose above 6 percent that day, that a money panic was not added to the stock panic, and that several Wall Street institutions did not go down into immediate bankruptcy, was due largely to the nerve shown by a few bankers in stepping into the breach. The story is told of one banker who went grimly on authorizing the taking over of loan after loan until one of his subordinate officers came in with a white face and told him that the bank was insolvent. "I dare say," said the banker, and went ahead unmoved. He knew that if he did not, more than one concern would face insolvency.

The next day—Wednesday, October 30—the outlook suddenly and providentially brightened. The directors of the Steel Corp. had declared an extra dividend; the directors of the American Can Co. had not only declared an extra dividend, but had raised the regular dividend. There was another flood of reassuring statements—though by this time a cheerful statement from a financier fell upon somewhat skeptical ears. Julius Klein, Mr. Hoover's Assistant Secretary of Commerce, composed a rhapsody on continued prosperity. John J. Raskob declared that stocks were at bargain prices and that he and his friends were buying. John D. Rockefeller poured Standard Oil upon the waters: "Believing that fundamental conditions of the country are sound and that there is nothing in the business situation to warrant the destruction of values that has taken place on the exchanges during the past week, my son and I have for some days been purchasing sound common stocks." Better still, prices rose—steadily and buoyantly. Now at last the time had come when the strain on the exchange could be relieved without causing undue alarm. At 1:40 o'clock Vice President Whitney announced from the rostrum that the exchange would not open until noon the following day and would remain closed all day Friday and Saturday—and to his immense relief the announcement was greeted, not with renewed panic, but with a cheer.

Throughout Thursday's short session the recovery continued. Prices gyrated wildly—for who could arrive at a reasonable idea of what a given stock was worth, now that all settled standards of value had been upset?—but the worst of the storm seemed to have blown over. The financial community breathed more easily; now they could have a chance to set their houses in order.

It was true that the worst of the panic was past. But not the worst prices. There was too much forced liquidation still to come as brokers' accounts were gradually straightened out, as banks called for more collateral, and terror was renewed. The next week, in a series of short sessions, the tide of prices receded once more—until at last on November 13 the bottom prices for the year 1929 were reached. Beside the figures hung up in the sunny days of September they made a tragic showing:

	High price Sept. 3, 1929	Low price[1] Nov. 13, 1929
American Can	181⅞	86
American Telephone & Telegraph	304	197¼
Anaconda Copper	131½	70
General Electric	396¼	168⅛
General Motors	72¾	36
Montgomery Ward	137⅞	49¼
New York Central	256⅜	160
Radio	101	28
Union Carbide & Carbon	137⅞	59
United States Steel	261¾	150
Westinghouse Electric & Manufacturing	289⅞	102⅝
Woolworth	100⅜	52¼
Electric Bond & Share	186¾	50¼

The New York Times averages for 50 leading stocks had been almost cut in half, falling from a high of 311.90 in September to a low of 164.43 on November 13; and the Times averages for 25 leading industrials had fared still worse, diving from 469.49 to 220.95.

The big bull market was dead. Billions of dollars' worth of profits—and paper profits—had disappeared. The grocer, the window cleaner, and the seamstress had lost their capital. In every town there were families which had suddenly dropped from showy affluence into debt. Investors who had dreamed of retiring to live on their fortunes now found themselves back once more at the very beginning of the long road to riches. Day by day the newspapers printed the grim reports of suicides.

Coolidge-Hoover prosperity was not yet dead, but it was dying. Under the impact of the shock of panic, a multitude of ills which hitherto had passed unnoticed or had been offset by stock-market optimism began to beset the body economic, as poisons seep through the human system when a vital organ has ceased to function normally. Although the liquidation of nearly $3 billion of brokers' loans contracted credit, and the Reserve banks lowered the rediscount rate, and the way in which the larger banks and corporations of the country had survived the emergency without a single failure of large proportions offered real encouragement, nevertheless the poisons were there: overproduction of capital; overambitious expansion of business concerns; overproduction of commodities under the stimulus of installment buying and buying with stock-market profits; the maintenance of an artificial price level for many commodities; the depressed condition of European trade. No matter how many soothsayers of high finance proclaimed that all was well, no matter how earnestly the President set to work to repair the damage with soft words and White House conferences, a major depression was inevitably underway.

Nor was that all. Prosperity is more than an economic condition; it is a state of mind. The big bull market had been more than the climax of a business cycle; it had been the climax of a cycle in American mass thinking and mass emotion. There was hardly a man or woman in the country whose attitude toward life had not been affected by it in some degree and was not now affected by the sudden and brutal shattering of hope. With the big bull market gone and prosperity going, Americans were soon to find themselves living in an altered world which called for new adjustments, new ideas, new habits of thought, and a new order of values. The psychological climate was changing; the ever-shifting currents of American life were turning into new channels.

The postwar decade had come to its close. An era had ended.

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BLACK DEPRESSION

(By Frederick Lewis Allen)

Statistics are bloodless things.

To say that during the year 1932, the cruelist year of the depression, the average number of unemployed people in the country was 12½ million by the estimates of the National Industrial Conference Board, a little over 13 million by the estimates of the American Federation of Labor, and by other estimates (differently arrived at, and defining unemployment in various ways) anywhere from 8½ to 17 million—to say this is to give no living impression of the jobless men going from office to office or from factory gate to factory gate; of the disheartening inevitability of the phrase, "We'll let you know if anything shows up"; of men thumbing the want ads in cold tenements, spending fruitless hours, day after day and week after week, in the sidewalk crowds before the employment offices; using up the money in the savings bank, borrowing on their life insurance, selling whatever possessions could be sold, borrowing from relatives less and less able to lend, tasting the bitterness of inadequacy, and at last swallowing their pride and going to apply for relief—if there was any to be got. (Relief money was scarce, for charitable organizations were hard beset and cities and towns had either used up their available funds or were on the point of doing so.)

A few statistical facts and estimates are necessary, however, to an understanding of the scope and impact of the depression. For example:

Although the amount of money paid out in interest during the year 1932 was only 3.5 percent less than in 1929, according to the computations of Dr. Simon Kuznets for the National Bureau of Economic Research, on the other hand the amount of money paid out in salaries had dropped 40 percent, dividends had dropped 56.6 percent, and wages had dropped 60 percent. (Thus had the debt structure remained comparatively rigid while other elements in the economy were subjected to fierce deflation.)

Do not imagine, however, that the continuation of interest payments and the partial continuation of dividend payments meant that business as a whole was making money. Business as a whole lost between $5 and $6 billion in 1932. (The Government figure for all the corporations in the country—451,800 of them—was a net deficit of $5,640 million.) To be sure, most of the larger and better managed companies did much better than that. E. D. Kennedy's figures for the 960 concerns whose earnings were tabulated by Standard Statistics—mostly big ones whose stock was active on the stock exchange—show that these 960 leaders had a collective profit of over a third of a billion.

Yet one must add that "better managed" is here used in a special sense. Not only had laborsaving devices and speedups increased the output per man-hour in manufacturing industries by an estimated 18 percent since 1929, but employees had been laid off in quantity. Every time one of the giants of industry, to keep its financial head above water, threw off a new group of workers, many little corporations roundabout sank further into the red.

While existing businesses shrank, new ones were not being undertaken. The total of domestic corporate issues—issues of securities floated to provide capital for American corporations—had dropped in 1932 to just about one twenty-fourth of the 1929 figure.

But these cold statistics give us little sense of the human realities of the economic paralysis of 1932. Let us try another approach.

Walking through an American city, you might find few signs of the depression visible—or at least conspicuous—to the casual eye. You might notice that a great many shops were untenanted, with dusty plate-glass windows and signs indicating that they were ready to lease; that few factory chimneys were smoking; that the streets were not so crowded with trucks as in earlier years, that there was no uproar of riveters to assail the ear, that beggars and panhandlers were on the sidewalks in unprecedented numbers (in the Park Avenue district of New York a man might be asked for money 4 or 5 times in a 10-block walk). Traveling by railroad, you might notice that the trains were shorter, the Pullman cars fewer—and that fewer freight trains were on the line. Traveling overnight, you might find only two or three other passengers in your sleeping car. (By contrast, there were more filling stations by the motor highways than ever before, and of all the retail businesses in "Middletown" only the filling stations showed no large drop in business during the black years; for although few new automobiles were being bought, those which would still stand up were being used more than ever—to the dismay of the railroads.)

Otherwise things might seem to you to be going on much as usual. The major phenomena of the depression were mostly negative and did not assail the eye.

But if you knew where to look, some of them would begin to appear. First, the breadlines in the poorer districts. Second, those bleak settlements ironically known as Hoovervilles in the outskirts of the cities and on vacant lots—groups of makeshift shacks constructed out of packing boxes, scrap iron, anything that could be picked up free in a diligent combing of the city dumps; shacks in which men and sometimes whole families of evicted people were sleeping on automobile seats carried from auto graveyards, warming themselves before fires of rubbish in grease drums. Third, the homeless people sleeping in doorways or on park benches, and going the rounds of the restaurants for leftover half-eaten biscuits, piecrusts, anything to keep the fires of life burning. Fourth, the vastly increased number of thumbers on the highways, and particularly of freight car transients on the railroads; a huge army of drifters ever on the move, searching half-aimlessly for a place where there might be a job. According to Jonathan Norton Leonard, the Missouri Pacific Railroad in 1929 had "taken official cognizance" of 13,745 migrants; by 1931 the figure had already jumped to 186,028. It was estimated that by the beginning of 1933, the country over, there were a million of these transients on the move.

Forty-five thousand had passed through El Paso in the space of 6 months; 1,500 were passing through Kansas City every day. Among them were large numbers of young boys, and girls disguised as boys. According to the Children's Bureau, there were 200,000 children thus drifting about the United States. So huge was the number of freight car hoppers in the Southwest that in a number of places the railroad police simply had to give up trying to remove them from the trains; there were far too many of them.

Among the comparatively well-to-do people of the country (those, let us say, whose predepression incomes had been over $5,000 a year) the great majority were living on a reduced scale, for salary cuts had been extensive, especially since 1931, and dividends were dwindling. These people were discharging servants, or cutting servants' wages to a minimum, or in some cases "letting" a servant stay on without other compensation than board and lodging. In many pretty houses, wives who had never before—in the revealing current phrase—"done their own work" were cooking and scrubbing. Husbands were wearing the old suit longer, resigning from the golf club, deciding, perhaps, that this year the family couldn't afford to go to the beach for the summer, paying 75 cents for lunch instead of a dollar at the restaurant or 35 instead of 50 at the lunch counter. When those who had flown high with the stock market in 1929 looked at the stock-market page of the newspapers nowadays their only consoling thought (if they still had any stock left) was that a judicious sale or two would result in such a capital loss that they need pay no income tax at all this year.

Alongside these men and women of the well-to-do classes whose fortunes had been merely reduced by the depression were others whose fortunes had been shattered. The crowd of men waiting for the 8:14 train at the prosperous suburb included many who had lost their jobs, and were going to town as usual not merely to look stubbornly and almost hopelessly for other work but also to keep up a bold front of activity. (In this latter effort they usually succeeded: one would never have guessed, seeing them chatting with their friends as traintime approached, how close to desperation some of them had come.) There were architects and engineers bound for offices to which no clients had come in weeks. There were doctors who thought themselves lucky when a patient paid a bill. Mrs. Jones, who went daily to her stenographic job, was now the economic mainstay of her family, for Mr. Jones was jobless and was doing the cooking and looking after the children (with singular distaste and inefficiency). Next door to the Joneses lived Mrs. Smith, the widow of a successful lawyer; she had always had a comfortable income, she prided herself on her "nice things," she was pathetically unfitted to earn a dollar even if jobs were to be had; her capital had been invested in South American bonds and United Founders stock and other similarly misnamed "securities," and now she was completely dependent upon handouts from her relatives, and didn't even have carfare in her imported pocketbook.

The Browns had retreated to their "farmhouse" in the country and were trying to raise crops on its stony acres; they talked warmly about primal simplicities but couldn't help longing sometimes for electric lights and running hot water, and couldn't cope with the potato bugs. (Large numbers of city dwellers thus moved to the country, but not enough of them engaged in real farming to do more than partially check the long-term movement from the farms of America to the cities and towns.) It was being whispered about the community that the Robinson family, though they lived in a $40,000 house and had always spent money freely, were in desperate straits: Mr. Robinson had lost his job, the house could not be sold, they had realized on every asset at their command, and now they were actually going hungry—though their house still looked like the abode of affluence.

Further down in the economic scale, particularly in those industrial communities in which the factories were running at 20 percent of capacity or had closed down altogether, conditions were infinitely worse. Frederick E. Croxton's figures, taken in Buffalo, show what was happening in such communities: out of 14,909 persons of both sexes willing and able to work, his house-to-house canvassers found in November 1932, that 46.3 percent were fully employed, 22.5 percent were working part time, and as many as 31.2 percent were unable to find jobs. In every American city, quantities of families were being evicted from their inadequate apartments; moving in with other families till 10 or 12 people would be sharing 3 or 4 rooms; or shivering through the winter in heatless houses because they could afford no coal, eating meat once a week or not at all. If employers sometimes found that former employees who had been discharged did not seem eager for reemployment ("They won't take a job if you offer them one."), often the reason was panic: a dreadful fear of inadequacy which was one of the depression's commonest psychopathological results. A woman clerk, offered piecework after being jobless for a year, confessed that she almost had not dared to come to the office, she had been in such terror lest she wouldn't know where to hang her coat, wouldn't know how to find the washroom, wouldn't understand the boss's directions for her job.

For perhaps the worst thing about this depression was its inexorable continuance year after year. Men who have been sturdy and self-respecting workers can take unemployment without flinching for a few weeks, a few months, even if they have to see their families suffer; but it is different after a year, 2 years, 3 years. Among the miserable creatures curled up on park benches or standing in dreary lines before the soup kitchens in 1932 were men who had been jobless since the end of 1929.

At the very bottom of the economic scale the conditions may perhaps best be suggested by two brief quotations. The first, from Jonathan Norton Leonard's "Three Years Down," describes the plight of Pennsylvania miners who had been put out of company villages after a blind and hopeless strike in 1931: "Reporters from the more liberal metropolitan papers found thousands of them huddled on the mountainsides, crowded three or four families together in one-room shacks, living on dandelions and wild weed roots. Half of them were sick, but no local doctor would care for the evicted strikers. All of them were hungry and many were dying of those providential diseases which enable welfare authorities to claim that no one has starved." The other quotation is from Louise V. Armstrong's "We Too Are the People," and the scene is Chicago in the late spring of 1932:

"One vivid, gruesome moment of those dark days we shall never forget. We saw a crowd of some 50 men fighting over a barrel of garbage which had been set outside the back door of a restaurant. American citizens fighting for scraps of food like animals."

Human behavior under unaccustomed conditions is always various. One thinks of the corporation executive to whom was delegated the job of discharging several hundred men: he insisted on seeing every one of them personally and taking an interest in each man's predicament, and at the end of a few months his hair had turned prematurely gray. * * * The junior league girl who reported with pride a depression economy: she had cut a piece out of an old fur coat in the attic and bound it to serve as a bathmat. * * * The banker who had been plunged deeply into debt by the collapse of his bank: he got a $30,000 job with another bank, lived on $3,000 a year, and honorably paid $27,000 a year to his creditors. * * * The wealthy family who lost most of their money but announced bravely that they had "solved their depression problem" by discharging 15 of their 20 servants, and showed no signs of curiosity as to what would happen to these 15. * * * The little knot of corporation officials in a magnificent skyscraper office doctoring the books of the company to dodge bankruptcy. * * * The crowd of Chicago Negroes standing tight-packed before a tenement-house door to prevent the landlord's agents from evicting a neighbor family: as they stood there, hour by hour, they sang hymns. * * * The one-time clerk carefully cutting out pieces of cardboard to put inside his shoes before setting out on his endless job-hunting round, and telling his wife the shoes were now better than ever. * * * The man in the little apartment next door who had given up hunting for jobs, given up all interest, all activity, and sat hour by hour in staring apathy. * * *

Not only were ideas boiling; the country was losing patience with adversity. That instinct of desperate men to rebel which was swelling the radical parties in a dozen depression-hit countries and was gathering stormily behind Hitler in Germany was working in the United States, also. It was anything but unified, it was as yet little organized, and only in scattered places did it assume the customary European shape of communism. It had been slow to develop—partly because Americans had been used to prosperity and had expected it to return automatically, partly because when jobs were vanishing those men who were still employed were too scared to be rebellious, and simply hung on to what they had and waited and hoped. (It is not usually during a collapse that men rebel, but after it.) There had been riots and hunger marches here and there but on the whole the orderliness of the country had been striking, all things considered. Yet men could not be expected to sit still forever in the expectation that an economic system which they did not understand would right itself. The ferment of dissatisfaction was working in many places and taking many forms, and here and there it was beginning to break sharply through the orderly surface of society.

In the summer of 1932 the city of Washington was to see an exciting example of this ferment—and a spectacular demonstration of how not to deal with it.

All through June thousands of war veterans had been streaming into Washington, coming from all over the country by boxcar and by truck. These veterans wanted the Government to pay them now the "adjusted compensation" which Congress had already voted to pay them in 1945. They set up a camp—a shantytown, a sort of big-scale "Hooverville"—on the Anacostia Flats near the city, and they occupied some vacant land with disused buildings on it on Pennsylvania

Avenue just below the Capitol. More and more of them straggled to Washington until their number had reached 15,000 or 20,000.

Among such a great crowd there were inevitably men of many sorts. The Hoover administration later charged that many had had criminal records, or were Communists. But unquestionably the great majority of them were genuine veterans; though there was one small Communist group, it was regarded with hostility by the rest; in the main this "Bonus Expeditionary Force" consisted of ordinary Americans out of luck. They were under at least a semblance of military discipline and were on the whole well-behaved. Many brought their wives and children along, and as time went on the Anacostia camp took on an air half military and half domestic, with the family wash hanging on the line outside the miserable shacks, and entertainers getting up impromptu vaudeville shows.

Gen. Pelham D. Glassford, the Washington Superintendent of Police, sensibly regarded these invaders as citizens who had every right to petition the Government for a redress of grievances. He helped them to get equipment for their camp and treated them with unfailing consideration. But to some Washingtonians their presence was ominous. A group of the veterans—under a leader who wore a steel neckbrace and a helmet with straps under the chin, to support a broken back—picketed the Capitol for days while the bonus bill was being considered; and on the evening when the bill was to come to a vote, the great plaza before the Capitol was packed with veterans. The Senate voted "No." What would the men do? There were people looking out the windows of the brightly lighted Senate wing who wondered breathlessly if those thousands of ragged men would try to rush the building. But when their leader announced the news, a band struck up "America" and the men dispersed quietly. So far, so good.

Some of them left Washington during the next few days, but several thousand stayed on, hopelessly, obstinately. (Where had they to go?) Officialdom became more and more uneasy. The White House was put under guard, its gates closed and chained, the streets about it cleared, as if the man there did not dare face the unrest among the least fortunate of the citizenry. It was decided to clear the veterans out of the disused buildings below the Capitol (to make way for the Government's building program); and on the morning of July 28, 1932, General Glassford was told that the evacuation must be immediate. He set about his task.

It began peacefully, but at noon somebody threw a brick and there was a scuffle between the veterans and the police, which quickly subsided. Two hours later there was more serious trouble as a policeman at whom the veterans had thrown stones pulled his gun; two veterans were killed before Glassford could get the police to stop shooting. Even this battle subsided. All Glassford wanted was time to complete the evacuation peacefully and without needless affront. But he was not to get it.

Earlier in the day he had told the District Commissioners that if the evacuation was to be carried out speedily, troops would be required. This statement had been needlessly interpreted as a request for military aid, which Glassford did not want at all. President Hoover had ordered the U.S. Army to the rescue.

Down Pennsylvania Avenue, late that hot afternoon, came an impressive parade—four troops of cavalry, four companies of infantry, a machinegun squadron, and several tanks. As they approached the disputed area they were met with cheers from the veterans sitting on the curb and from the large crowd which had assembled. Then suddenly there was chaos: cavalrymen were riding into the crowd, infantrymen were throwing tear-gas bombs; women and children were being trampled and were choking from the gas; a crowd of 3,000-or-more spectators who had gathered in a vacant lot across the way were being pursued by the cavalry and were running widly, pell-mell across the uneven ground, screaming as they stumbled and fell.

The troops moved slowly on, scattering before them veterans and homegoing Government clerks alike. When they reached the other end of the Anacostia Bridge and met a crowd of spectators who booed them and were slow to "move on," they threw more gas bombs. They began burning the shacks of the Anacostia camp—a task which the veterans themselves helped them accomplish. That evening the Washington sky glowed with fire. Even after midnight the troops were still on their way with bayonets and tear-gas bombs, driving people ahead of them into the streets of Anacostia.

The "Bonus Expeditionary Force" had been dispersed, to merge itself with that greater army of homeless people who were drifting about the country in search of an ever-retreating fortune. The U.S. Army had completed its operation "successfully" without killing anybody—though the list of injured was long. The incident was over. But it had left a bitter taste in the mouth. Bayonets drawn in Washington to rout the dispossessed—was this the best that American statesmanship could offer hungry citizens?

The farmers were rebellious—and no wonder. For the gross income of American agriculture had declined from nearly $12 billion in 1929—when it had already for years been suffering from a decline in export sales—to only $5¼ billions in 1932. While most manufacturing businesses dropped their prices only a little and met slackened demand with slackened production, the farmer could not do this, and the prices he got went right down to the cellar. Men who found themselves utterly unable to meet their costs of production could not all be expected to be philosophical about it.

Angry Iowans, organized by Milo Reno into a Farmers' Holiday Association, were refusing to bring food into Sioux City for 30 days or "until the cost of production has been obtained"; they blockaded the highways with spiked telegraph poles and logs, stopped milk trucks and emptied the milk into roadside ditches. Said an elderly Iowa farmer with a white mustache to Mary Heaton Vorse, "They say blockading the highway's illegal. I says, 'Seems to me there was a tea party in Boston that was illegal too.' "

Elsewhere, farmers were taking the obvious direct means to stop the tidal wave of mortgage foreclosure sales. All through the prairie country there were quantities of farmers who not only had heavy mortgages on their property but had gone deeply into debt for the purchase of farm machinery or to meet the emergencies of years of falling prices; when their corn and wheat brought to even the most industrious of them not enough money to meet their obligations, they lost patience with the laws of bankruptcy. If a man sees a neighbor of his, a formerly successful farmer, a substantial, hard-working citizen with a family, coming out of the office of the referee in bankruptcy stripped of everything but an old team of horses, a wagon, a few dogs and hogs, and a few sticks of furniture, he is likely to see red. Marching to the scene of the next foreclosure sale, these farmers would drive off prospective bidders, gather densely about the auctioneer, bid in horses at 25 cents apiece, cows at 10 cents, fat hogs at a nickel—and the next morning would return their purchases to the former owner.

In a quiet county seat, handbills would appear: "Farmers and workers. Help protect your neighbors from being driven off their property. Now is the time to act. For the past 3½ years we have waited for our masters, who are responsible for the situation, to find a way out. * * * On Friday the property of ——— is to be sold at a forced auction at the courthouse. * * * The farmers' committeee has called a mass protest meeting to stop the above-mentioned sale." And on Friday the trucks would drive up to the courthouse and men by the hundreds, quiet, grim faced, would fill the corridors outside the sheriff's office while their leaders demanded that the sale be not held.

They threatened judges in bankruptcy cases; in one case a mob dragged a judge from his courtroom, beat him, hanged him by the neck till he fainted—and all because he was carrying out the law.

These farmers were not revolutionists. On the contrary, most of them were by habit conservative men. They were simply striking back in rage at the impersonal forces which had brought them to their present pass.

* * * * * * *

But it was during 1934 and 1935—the years when Roosevelt was pushing through his financial reforms, and Huey Long was a national portent, and the languishing NRA was put out of its misery by the Supreme Court—that the thermometer in Kansas stayed week after week at 108 or above and the black storms raged again and again. The drought continued acute during much of 1936. Oklahoma farms became great dunes of shifting sand (so like seashore dunes, said one observer, that one almost expected to smell the salt). Housewives in the drought belt kept oiled cloths on the window sills and between the upper and lower sashes of the windows, and some of them tried to seal up every aperture in their houses with the gummed paper strips used in wrapping parcels, yet still the choking dust filtered in and lay in ripples on the kitchen floor, while outside it blew blindingly across a no man's land; roads and farm buildings and once green thickets half buried in the sand. It was in those days that a farmer, sitting at his window during a dust storm, remarked that he was counting the Kansas farms as they came by.

Retribution for the very human error of breaking the sod of the plains had come in full measure. And, as often happens, it was visited upon the innocent as well as upon the guilty—if indeed one could single out any individuals as guilty of so pervasive an error as social shortsightedness.

Westward fled the refugees from this new Sahara, as if obedient to the old American tradition that westward lies the land of promise. In 1934 and 1935 Californians became aware of an increasing influx into their State of families and groups of families of "Okies," traveling in ancient family jalopies; but for years the streams of humanity continued to run. They came along U.S. Highway 30 through the Idaho hills, along Highway 66 across New Mexico and Arizona, along the Old Spanish Trail through El Paso, along all the other westward trails. They came in decrepit, square-shouldered 1925 Dodges and 1927 La Salles; in battered 1923 model T Fords that looked like relics of some antique culture; in trucks piled high with mattresses and cooking utensils and children, with suitcases, jugs, and sacks strapped to the running boards. "They roll westward like a parade," wrote Richard L. Neuberger. "In a single hour from a grassy meadow near an Idaho road I counted 34 automobiles with the license plates of States between Chicago and the mountains."

They left behind them a half depopulated countryside. A survey of the farmhouses in seven counties of southeastern Colorado, made in 1936, showed 2,878 houses still occupied, 2,811 abandoned; and there were also, in that area, 1,522 abandoned homesites. The total number of drought refugees who took the westward trek over the mountains was variously estimated in 1939 at from 200,000 upward—with more coming all the time.

As these wanderers moved along the highways they became a part of a vast and confused migratory movement. When they camped by the wayside they might find themselves next to a family of evicted white Alabama sharecroppers who had been on the move for 4 years, snatching seasonal farm labor jobs wherever they could through the Southwest; or next to tenant families from the Arkansas Delta who had been "tractored off" their land—expelled in order that the owner might consolidate two or three farms and operate them with tractors and day labor; or next to lone wanderers who had once held industrial jobs and had now for years been on relief or on the road—jumping freights, hitchhiking, panhandling, shunting back and forth across the countryside in the faint hope of a durable job. And when these varied streams of migrants reached the coast they found themselves in desperate competition for jobs with individuals or families who for years had been "fruit tramps," moving northward each year with the harvests from the Imperial Valley in southern California to the Sacramento Valley or even to the apple picking in the Yakima Valley in Washington.

Here in the land of promise, agriculture had long been partly industrialized. Huge farms were in the control of absentee owners or banks or corporations, and were accustomed to depend upon the labor of migratory "fruit tramps," who had formerly been mostly Mexicans, Japanese, and other foreigners, but now were increasingly Americans. Those laborers who were lucky enough to get jobs picking cotton or peas or fruit would be sheltered temporarily in camps consisting typically of frame cabins in rows, with a waterline between every two rows; they were very likely to find in their cabin no stove, no cots, no water pail. Even the best of the camps offered a way of life strikingly different from that of the ruggedly individualist farmer of the American tradition, who owned his farm or else was preparing, by working as a resident "hired man," or by renting a farm, for the chance of ultimate ownership. These pickers were homeless, voteless nomads, unwanted anywhere save at the harvest season.

When wave after wave of the new migrants reached California, the labor market became glutted, earnings were low, and jobs became so scarce that groups of poverty-stricken families would be found squatting in makeshift Hoovervilles or bunking miserably in their awkward old Fords by the roadside. Being Americans of native stock and accustomed to independence, they took the meager wages and the humiliation bitterly, sought to organize, talked of striking, sometimes struck. At every such threat, sometimes like panic seized the growers. If this new proletariat were permitted to organize, and were to strike at picking time, they might ruin the whole season's output of a perishable crop. There followed antipicketing ordinances; the spectacle of armed deputies dislodging the migrants from their pitiful camps; violence by bands of vigilantes, to whom these ragged families were not fellow citizens who had suffered in a great American disaster but dirty, ignorant, superstitious outlanders, failures at life, easy dupes for "Red" agitators. This engulfing tide of discontent must be kept moving.

Farther north the refugees were likely to be received with more sympathy, especially in regions where the farms were small and not industrialized; here and there one heard of instances of real hospitality, such as that of the Oregon town which held a canning festival for the benefit of the drought victims in the neighborhood. The well-managed camps set up by the Farm Security Administration were havens of human decency. But to the vast majority of the refugees the promised land proved to be a place of new and cruel tragedy.

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INSTITUTIONAL FRICTIONS AND TECHNOLOGICAL UNEMPLOYMENT

(By Alvin H. Hansen)

I. The argument that laborsaving improvements release purchasing power and so reabsorb displaced labor, 684.—The fallacy in this argument, 686.—Circumstance under which the displaced labor will be reabsorbed, 687.—II. Effect of price reduction, 688; of restrictions upon credit and wage rates, 690.—III. Effect of price maintenance, 692; of lower interest rates, 693.—IV. The effect of universal monopoly upon unemployment, 696.—Quasi-monopoly control of prices contrasted with rigid control of wage-rates, 697.

I

In a recent article of considerable length, Prof. Paul H. Douglas makes a detailed and thorough analysis of the view so generally held by labor leaders, employers, journalists, and politicians that technological improvements permanently displace labor, and that therefore the necessary solutions lie in the direction of shorter hours of work, more rigid elimination of juvenile labor and the pensioning of older workers. Mr. Douglas reaches the definite conclusion that this view is incorrect, that workers are not permanently thrown out of employment by improvements in machinery and in managerial efficiency. There is indeed nothing novel about this conclusion, but Mr. Douglas complains that writers, such as Sir William Beveridge in his "Unemployment, a Problem of Industry," fail to explain the forces at work and "consequently have not given any tangible justification for their faith that somehow the displaced workers will be reabsorbed elsewhere in industry."[1]

The argument which Mr. Douglas advances, however, in support of his thesis is one long familiar to economic theorists. Laborsaving improvements reduce the cost per unit of output. The reduction in costs leads either to lower prices to consumers or to higher profits for employers. If prices are reduced in proportion to the lowering of costs, the quantity purchased will—in the case of commodities for which there is an elastic demand—increase so that no labor is displaced. In the case of inelastic demand, labor is indeed displaced, but the lower prices enable consumers to purchase the same quantities at much lower money expenditures; a part of consumers' incomes is therefore set free and can be applied to the purchase of other commodities. Labor is required to produce these new commodities and so the displaced workers are reabsorbed into industry. If prices are not reduced, the lower costs yield larger profits to employers who in consequence enjoy an increased purchasing power. This added income is either spent or saved. In either event labor is required, whether in the production of consumers' goods or producers' goods, and so the displaced labor is absorbed into these expanding industries.

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[1] Paul H. Douglas, "Technological Unemployment," American Federationist, August 1930. See also Douglas and Director, "The Problem of Unemployment, 1931."

It is admitted that the absorption does not take place at once; there is transitional unemployment, but eventually the released purchasing power will make its effect felt. In the long run, laborsaving improvements cannot permanently cause unemployment.

This analysis, it is claimed, is an improved modernized statement of Say's law. Yet it is not difficult to show, I think, that the analysis as presented is, at least in part, fallacious. Moreover it is not an accurate interpretation of Say's law, which, as stated by Say, James Mill, and Ricardo has, as far as longrun tendencies are concerned, stood the test of a hundred years of economic theorizing.

The fallacy in the argument briefly outlined above arises from a confusion resulting from the identification of the demand for labor and the demand for goods. In order to get the clearest possible case, let us assume a condition of absolutely inelastic demand. Laborsaving improvements are introduced to an extent which permits half of the labor formerly employed to be discharged, and so labor costs are cut in two. Prices are reduced in proportion to costs, but the quantity sold is not greater than before. Consumers gain, indeed, in purchasing power, but their gain is offset by the loss in purchasing power suffered by the displaced workers. Consumers are able to buy more of their goods, but the workers who are thrown out of work cannot continue their former purchases. There is no net increase in purchasing power.[2] Assuming, for the sake of simplicity, that the fortunate consumers will use their increased purchasing power to buy the same sort of goods that the now unemployed workers formerly bought, we observe no change whatever in the demand for goods. But even though there were a shift in demand there would be no increase in the demand for goods in general. The purchasing power set free by the reduction in price, consequent upon lower costs, is sufficient to maintain the former demand for goods despite the reduced purchasing power of the displaced wage earners, but is not sufficient to maintain the former demand for labor. There is no extra purchasing power available to buy added goods, the production of which would cause the displaced labor to become reabsorbed into industry. The situation is precisely the same if we assume that prices are not reduced in spite of lower costs. Employers have larger incomes, but these are offset by the decline in labor incomes consequent upon the unemployment caused by the laborsaving improvements.

If we could assume that the displaced workers had somehow found new employment and were again earning wages, then indeed there would be a net gain in total real purchasing power arising out of the additional goods which they produce. But this is to put the cart before the horse, to assume the problem solved without explaining how it happened. And this is, indeed, what Say, Mill, and Ricardo did. They argued that increased product means increased purchasing power. They assumed, without explaining how it happened, that the increased production had already occurred. If idle productive factors are set to work to make goods there will be no want of a market. Goods are exchanged against goods. Such was their argument. But the mechanism of labor reabsorption they did not explain. This is precisely what is attempted by the "setting free of purchasing power" analysis explained above. As we have seen, however, closer examination of this thesis exposes a serious falacy. It turns out that, as far as this analysis goes, there is no reason at all why the displaced labor should not remain permanently unemployed.

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[2] The objection might be made that the unemployed do in fact continue to consume, say, one-half as much as before. This consumption, however, must be financed out of charity, public relief, savings, or borrowing. But none of these, except possibly the last, amount to anything other than a shift in purchasing power. Borrowing might indeed result in an expansion of credit and purchasing power at least in certain phases of the cycle, and to this extent the argument needs slight modification. But from the longrun standpoint it is not likely that the pressing needs of unemployed persons actually have the effect of increasing the volume of credit and purchasing power. All that can be granted is that there is a slight modification of the use to which credit and purchasing power is put.

There are, indeed, certain circumstances under which, as I see it, the displaced labor would be reabsorbed into industry explained above. And under other conditions I do not believe that the reabsorption can take place at all.

The Say-Mill-Ricardo analysis assumed without question that idle productive resources would ere long be set to work to produce goods. The only question to which they addressed themselves was whether or not the new production would find a market. On what basis could they assume the former point? On the assumption of a free price system, of a free market for the agents of production. They assumed that the prices of these agents would fall to the point at which it would be profitable for entrepreneurs to employ them. More concretely they assumed a competitive labor market—competition among employers for labor, and competition among laborers for jobs. Under this assumption they were right. Technological improvements could not permanently displace labor.

Mr. Douglas, however, makes no such qualifications. Yet under modern conditions, in which trade unions and unemployment insurance make wage reductions difficult, it is quite possible that the displaced labor cannot be reemployed. It may or may not be reabsorbed depending upon what wage and credit policies are pursued. These are cases in which the institutional controls cannot be overlooked, if one is to give a definitive answer.

II

First, let us assume that the price of the product is reduced in proportion to the decline in per-unit cost. If the demand is elastic[3] no labor will be displaced at all. On this point there is no disagreement. If the demand is inelastic, workers will be displaced. Under certain conditions these displaced workers would be reabsorbed into industry elsewhere; under others not.

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[3] The degree of elasticity required depends upon whether one is considering the displacement of labor in the industry in which laborsaving improvements are being introduced alone, or in industry as a whole including the accessory machine industries. In the latter case an elasticity of one is sufficient. In the former case an elasticity of demand considerably greater than one may be required, since the laborsaving improvement might result in a very great reduction in the labor employed in the special industry, without any very great reduction in cost per unit of output. Machine costs (depreciation and interest charges) might very nearly offset the reduction in labor costs. If machine costs largely offset reduced labor costs, the demand would have to be extremely elastic, if no workmen were to be discharged in the special industry in question.

As already indicated the consumers of the lower priced articles gain in purchasing power, but at the same stroke the workers who have been discharged lose an exactly equal purchasing power. This is on the assumption that the decrease in unit cost had been effected by means of laborsaving devices which were not capital using; hence no larger disbursements in the form of interest payments would be required. If, however, the reduction in cost had been effected by means of more elaborate machinery, the gain in purchasing power of consumers plus interest receivers would be exactly offset by the loss in purchasing power of the displaced wage earners. There would be no new purchasing power released, and therefore the displaced workers would not readily find new jobs.

Under certain conditions, however, the unemployed labor would be reabsorbed. If the prices of all goods enjoying cost-reducing improvements were lowered to the new cost level, and if the demand were perfectly inelastic, the same quantity of those goods would be sold at lower prices. The general price level would be lower as a result of these cost-reducing improvements. Since less money (including credit) would be needed to circulate these particular goods, bank credit would be set free and this would now become available for new uses. Easy money and credit conditions always follow from cost and price reductions. Unless this easy credit situation were counteracted by the arbitrary action of the central bank or banks, discount rates would tend to be lower and the released bank credit would sooner or later be taken up.[4] Entrepreneurs in possession of this bank credit would be enabled to put the productive forces in motion in anticipation of the sale of the product out of which the factors of production would eventually have to be paid. In this event the reabsorption of the released credit would be more or less closely balanced by the increased output of goods. The price level would, therefore, continue at the lower level reached as a result of the decline in the prices of those particular products which enjoyed cost-reducing improvements. The assumed reabsorption of credit would supply an added monetary purchasing power sufficient to buy the products of the formerly displaced, but now reemployed, workers at prices sufficiently remunerative to pay the current level of market wages.[5]

Thus at the same time that the laborsaving improvements displace labor, the accompanying reduction in prices displaces credit. The released credit becomes a means by which the displaced labor can be reabsorbed. This mechanism is, however, not explained by the analysis usually given.

Suppose, however, the released bank credit is not taken up—perhaps for a considerable period pessimism restrains the spirit of enterprise, or perhaps central banks for one reason or another take up the slack by "hoarding" the gold reserves—then the displaced labor will tend to remain unemployed unless wages are reduced. Assume, for the moment, that somehow or other the displaced labor had become reabsorbed without any wage reduction. The employment of this labor would result in an increased output of goods. Assuming, however, no corresponding credit expansion, the added goods would have to compete with the old output for the same monetary purchasing power. This would mean a forced lowering of prices, which would, in turn, lead to business losses and eventual bankruptcy unless money costs per unit of output were also lowered. Money costs per unit of output might be reduced in two ways: (1) by further cost-reducing improvements, but insofar as these were laborsaving improvements more labor would be displaced and so a further unemployment problem would be created; (2) by the reduction in the money rates paid to the agents of production (chiefly labor). This reduction in money wages would not involve a decline in real wages, since prices, under the assumption made, had already fallen. In point of fact, however, it is not likely that the displaced labor would be employed in the first place except under the inducement of lower wages, since any expansion of output would have to be sold at lower prices.

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[4] Quantitatively such release of credit would be important precisely in proportion to the extent of the cost reductions effected. The cumulative effect upon the total purchasing power in a rapidly progressing community might easily be very great.

[5] This assumes that any tendency in the direction of diminishing returns from natural resources, consequent upon the increased output of goods, would be offset by greater technical efficiency of the complementary factors.

It is important to distinguish carefully the two types of price declines just referred to.[6] The decline in prices made possible by laborsaving improvements need not involve any maladjustment in the cost and price relationship even though wages were maintained at their former level.[7] But if there were a further fall in prices consequent upon the larger output resulting from the reemployment of the displaced workers, a serious cost and price maladjustment would occur unless wages were also reduced.[8] If, on the other hand, the bank credit released by the cost-reducing improvements were subsequently utilized, the displaced labor could be reemployed without any wage reductions.

Under certain conditions of institutional control of credit and wages, then, we cannot definitely assert that labor displaced by technological improvements will eventually be reabsorbed into industry.

III

We next assume that prices are not reduced, in spite of laborsaving improvements. In this event the employers would be the gainers. But their gain would be exactly offset by the loss suffered by the displaced workers; there would therefore be no net increase in purchasing power.

The employers might spend their added incomes or they might save them. If they spent them, the net effect would not be an expansion in the demand for goods, as is commonly asserted, but only a shift in demand from the types of consumers' goods formerly bought by the displaced workers to the types of goods purchased by the more well-to-do classes. Since we assume no decline in prices in the industries adopting the laborsaving methods, no released credit would be available for possible expansion. The unemployed labor could be absorbed only by undercutting the wage level.

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[6] Cf. J. M. Keynes, "A Treatise on Money," Harcourt, Brace & Co., 1930, 1, 207–208.

[7] At least this would be the case under the ideal conditions of a perfectly free market and complete capital and labor mobility. In point of fact maladjustments do occur, but this is a complicated matter which, for present purposes, would lead one too far afield.

[8] The argument that the decline in wage rates makes matters worse by reducing the community's buying power is fallacious for two reasons: (1) the buying power of the Nation depends on the total money income not on the share of wages alone, (2) the buying power of wages depends not on wage rates but on wage rates and employment.

But suppose the employers chose to save their newly gained incomes. The myight, for example, decide to put it back into their own businesses. Insofar as the laborsaving improvements required additional capital, this would be quite the natural thing and indeed a sound policy. But if no new capital were needed, in this manner, further investment in a field that could enjoy no expansion of demand, would be wholly wasteful.

The cartel form of organization is especially guilty of blindly putting profits back in the business until capital equipment has expanded to a point at which there is gross overcapacity. The reason, of course, is that production quotas are to a large extent based on capacity, and so each member of the cartel wishes to expand his plant in order to obtain a larger output quota. In this manner, purchasing power, which might otherwise have gone into useful consumption, is simply wasted. But as far as the effect on the labor market is concerned, it makes absolutely no difference whether the employers spend the added incomes on consumption goods for their own use, or waste it in overexpanded plants in their own businesses.[9]

The case is quite otherwise if the employers choose to invest their extra incomes in the general capital markets. The capital supply would be increased; interest rates would fall. Highly complicated and expensive machines not formerly economical (at the higher interest rates) could now be introduced. Each laborer could be equipped with more capital; the marginal productivity of labor would be increased. But if this should occur in industries whose products faced an inelastic demand situation or were under rigid price control, the effect would merely be to throw still more labor out of work.

But lower interest rates would not only make it economical to substitute machinery for labor in the old established fields which faced an inelastic and saturated demand or which were under price control. Lower interest rates would also open up new fields for investment. Capital improvements uneconomical at 5 percent become an economic proposition at 4 percent. In this manner, through the successive steps of excess profits, larger capital accumulations, and lower interest rates, an expansion would occur in the production of capital goods. This eventually would have the effect of increasing the total output of goods. And unless there should occur an expansion in the monetary purchasing power of the community, a fall in the general commodity price level would ensue. Theoretically such a price decline would not necessarily imply a maladjustment in the cost and price relationship.[10] The lower interest rates and the higher productivity of the other factors (consequent upon the increase of capital) would tend to offset the lower prices.[11]

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[9] The excess capacity might, however, in future result in a breakdown of cartel quotas, and so in an increased output of goods, lower prices, and cost and price maladjustments.

[10] See qualifications, however, in a previous footnote.

[11] The relation between interest rates and the price level is a complicated one. Wicksell has shown that if the discount rate is below the real rate of interest, borrowing is stimulated and prices tend to rise. If the discount rate is above the real interest rate, borrowing is curtailed and prices tend to fall. Now it is true that a fall in the market rate tends to raise prices, but once the price movement is started the interest rate is drawn up after it. Thus interest rates tend to correlate directly with price movements. An increase in capital investment not only tends to lower the real interest rate, but also to increase the total output of goods and so tends to produce a fall in commodity prices.

Thus, under the conditions assumed, the laborsaving improvements would add to the productive resources of the community in two ways: (1) they would displace a body of laborers who would become available for other work, (2) they would create new capital saved out of the profits arising from the improved processes. The employment of each of these two added resources would necessarily increase the total output of goods and cause a tendency in the direction of falling commodity prices. The price decline consequent upon the employment of added capital goods would not necessarily cause a maladjustment in costs and prices. Not so, however, with respect to the displaced labor. The displaced labor could not be permanently reabsorbed at the old money wage level, unless the increased output of goods were balanced by an increase in monetary purchasing power, thus enabling a maintenance of the former price level. This would require additional credit. But since we have assumed rigidly controlled prices in the laborsaving industry, no credit could be released for use elsewhere. Should the displaced labor be absorbed in new industries, purchasing power would be deflected from the old industries, prices would fall, and with no fall in wages, certain firms would be unable to meet their costs. Thus labor would again be displaced. If the discharged labor is to be permanently absorbed, the cost and price relationship must not be disturbed. Since, however, the price decline here considered is not occasioned by a gain in efficiency (but merely by the employment of more labor), a corresponding reduction in wages is required.[12]

IV

We have noted the effect, under certain conditions, of rigid trade union control of wages upon the absorption of displaced labor. Might not the restriction of output by monopoly control also prevent the reemployment of discharged labor? Monopoly power, if universal, could indeed rigidly limit the total output of goods and thereby the employment of labor. The extent of the profits would then merely be a question as to how much the total money income of the community exceeded the total money paid out in wages. If wages went up, the monopolists, if in control of the banking system, could merely extend more credit to themselves, and so bid the limited output of goods away from the wage earners. Prices would rise, but output being closely regulated, unemployed labor could not be reabsorbed into industry.

Let us take as a starting point Aftalion's[13] equation of exchange I=R P in which "I" is the money income of the country, "R" is the real income, the physical quantity of goods and services produced, while "P" represents the prices paid for these goods. Assume that "I" is controlled by the central banks, and that "P" is controlled partly by monopoly and quasi-monopoly power, and partly by the holding up of cost prices through working rules, customers, etc.—the striving of all classes for the highest possible income, as Conrad puts it.[14] If "I" is limited and "P" is artifically raised, it necessarily follows that the quantity of goods, "R" which can be sold at the abnormally high prices will be less than would otherwise be the case. Thus if the price level were maintained at an artificially high level in a community with a given money income, the total volume of goods and services which could be sold would be restricted and unemployment would of necessity ensue.

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[12] It is of course desirable to have the highest possible wages consistent with full employment. There is much force in Dr. Altschul's suggestion that there is such a thing as an optimum wage. If the wage is below the optimum there is a loss in efficiency (not primarily personal efficiency of the laborer, but more especially management efficiency, which of course affects the productivity of labor). If the wage is above the optimum there is an increase in unemployment. Cf. Eugen Altschul, "Lohnniveau und Kapitalbildung," Die Wirtschaftskurve, Heft iv, 1928.

[13] Albert Aftalion, Revue d'économie politique, May–June 1925.

It is, however, scarcely thinkable that all prices can be controlled. The number of competing commodities and services that can be put on the market is so large and the conflict of interest so great (in contrast to the single "commodity" and large homogeneity of interest in the labor market) that universal monopoly is scarcely thinkable. There are, indeed, in modern societies numerous monopolies and quasimonopolies, but total output of goods and services is far from subject to arbitrary control. Hence, to control the general price level from the side of production is scarcely possible. And if P as a whole were not artificially boosted, no absolute restriction of R would result.

Nothing short of a complete control of the prices of all goods would be needed to bring about a curtailment in the employment of the agents of production. A partial control of prices would merely produce a redistribution in the output of goods and services. The real income might indeed be less in terms of utility, but there would be no absolute curtailment of the outlets for the products of the agents of production, provided the prices of these agents were determined by free market forces. If, however, the price of one of the agents were controlled, other agents would be substituted for it to such an extent that a part of this agent could find no employment. The result would be an absolute curtailment of R due to the idleness of a part of this productive agent.

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[14] Otto Conrad, Absatzmangel und Arbeitslosigkeit als Dauerzustand.

[From the Atlantic Monthly, August 1931]

BUSINESS LOOKS AT UNEMPLOYMENT

(BY JULIUS H. BARNES)

I

To find work for the worker has become a universal task. As an international problem it has been taken up by the Economic Committee of the League of Nations. President Hoover's Conference on Unemployment and a special committee of the U.S. Senate are approaching it as a national problem. Legislative commissions are attacking it as a State problem. Numerous trade organizations are weighing it as the most formidable of the difficulties barring the way to industrial advancement, and as many more civic organizations are considering it as the most portentous of social questions.

At the turn of the year there were approximately 14 million workers in the United States and Europe for whom no work had been found, and efforts to check the rising tide of suffering and distress were worldwide. Great Britain, in 1911, had set the example by establishing its state system of unemployment insurance, which has since become the "dole," and the movement spread to Austria, Australia, Bulgaria, Germany, the Irish Free State, Italy, and Poland. Voluntary systems are in force in eight other countries. It has been estimated that 37,500,000 workers, not including Russia's sweating millions, now have thrown about them a protective mantle of one sort or another to shield them against the hardships of economic storm and stress. As this is written, 24 bills, all looking to the same end, are pending before 16 State legislatures in this country.

Of all the palliatives and remedies proposed or applied, it cannot be said that any holds promise of curing the disease. Government has found no way out of the economic dilemma which faces these efforts to allay the fear of unemployment. If the worker is to be sheltered against the privation and distress that follow in the wake of involuntary idleness, productive enterprise must eventually bear the cost at the risk of intensifying the ailment. Paul cannot be paid without the danger of pauperizing Peter. The National Confederation of Employers' Organizations of Great Britain points to the heavy public expenditure for social services—$1,946,600,000 in 1929—as one of the serious obstacles to national economic recovery. Even Russia, with all its scorn of bourgeois practices and philosophy, has been unable to suspend this inexorable rule. It has injected capitalistic libeblood into the veins of production by transfusing it from the veins of consumption, paying for the powerplants and factories of the 5-year plan with enforced labor and meager rations. Many of the social nostrums proposed for the cure of unemployment would reverse this process by paying for relief with industrial plants.

Unfortunately, ill assorted and antagonistic as they are, unemployment and business cannot be forcibly divorced. They are at opposite ends of the economic seesaw. When business goes up, unemployment declines, and when unemployment rises, consumption languishes and business sinks to lower levels.

This inescapable relationship was obvious enough when bread-and-butter getting was largely a matter of shepherding flocks and tilling the soil and industry kept close to the domestic hearth. The choice between working and having and not working and doing without was a mere matter of volition. No one cherished the delusion, now not uncommon, that a way could be found by which one could stand idle in the marketplace and at the same time receive the penny that was the hire of the worker in the vineyard.

So interpreted, the parable still holds good. Getting a job is not so simple a matter as applying to the lord of the vineyard or turning one's hand to one of the many tasks that crowded the days of our fathers before the coming of the machine. Nevertheless, business—busyness—and unemployment, or idleness, remain antithetical. They cannot be reconciled by a wave of the legislative wand or the invocation of social justice. Sympathy for those who suffer, however keen it may be, cannot be minted into coin to pay for their relief. Neither can a paternalistic state provide them with necessities merely by enacting a law.

Obviously the only cure for unemployment is employment, as the only effective remedy for idleness is work. But this affords small consolation to the worker who makes his futile rounds looking for something to do. Between him and his job, modern industrial civilization has interposed a system of producing, financing, storing, transporting, advertising, and distributing so vast that the plight of the man who can find no task to which he may put his hand and the plight of business, which should provide the task, are frequently not associated at all.

Baffled and bewildered, the worker justly demands opportunity to earn a livelihood, and the industrial order which denies him this opportunity cannot escape indictment on the plea that the giving of it does not lie within its control. To him the machine which robs him of his toil is a relentless monster. He cannot understand why the overthrow of a government 5,000 miles away, a discovery by a scientist of whom he has never heard, an invention that has revolutionized the making of glass bottles or the shaping of steel, the collapse of an unwise economic policy that has swamped world markets with a deluge of commodities, should deprive him of a chance to work.

Neither can it be gainsaid that business, long after the machine had begun to change the whole aspect of industry, looked upon unemployment as a social misfortune or an act of providence, the distressing effects of which were to be alleviated by poor laws and almshouses, and not as an economic ailment which would inevitably sap its own strength. It was slow to recognize the consumer in the worker. Many of the early directors of industry were disposed to look upon themselves as beneficent dispensers of employment who stood between the poor and the threat of destitution rather than seekers of the largess that is conferred by the lengthy payroll. The wage earner was obscured in the lengthening vista of demand.

II

The widening of the breach between the worker and his job is the price paid for productive efficiency. When industry forsook the serenity and security of the domestic fireside and sought out markets in the far corners of the world, it exposed itself to the winds and storms that blow up and down the Seven Seas. It laid itself open to the vicissitudes of political agitation and turmoil. By massing its resources in huge plants and regimenting labor in highly trained armies, it increased its output enormously, but at the same time it sacrificed the flexibility and mobility it possessed when every man was his own master. By enlisting science and invention, it opened the door to the feverish forging of new economic weapons that are constantly widening and altering the character of the conflict in which it is engaged.

Change takes its toll of industry in unemployment and obsolescence. When manufacturing was a houshold craft, the worker encountered no difficulty in turning from one task to another. If there was no wood to be hewn, there was water to be drawn, wool to be carded and spun, candles to be dipped. No elaborate readjustment of machinery, no shifting and training of labor, no planning of advertising and sales campaigns, were necessary. To adapt modern industry to the changing requirements of consumer demand is quite another thing. When public taste turned from narrow to wide carpets, new looms had to be installed, factories had to be rearranged, and labor had to be trained to the new task. When Henry Ford decided to manufacture a new model of his automobile, an army of workers was affected and millions were spent in designing and installing new equipment. It would be fatuous to attempt to escape these disadvantages, as some suggest, by returning to the older and simpler order of existence. Our fathers avoided them, but they went without broadloom carpets and automobiles.

For the havoc wrought upon industry and its workers by economic changes and dislocations, the machine bears the heaviest burden of blame. It is the most spectacular of the devices originated to relieve labor of muscular toil—but it is not the only one. Industrial engineering and business management are constantly shortening the steps of production and reducing the waste of time and effort. But the machine is luridly portrayed in its social effects as an economic juggernaut.

From the first, its advance was resisted. Appeals were made to government to stay its march centuries ago when use was first made of the power of flowing water. Labor took more direct measures by resorting to sabotage, smashing the looms which marked the beginning of the end of household industries. At the present time critics are pointing to technological unemployment as the most disconcerting of the evils which follow in its train, another name for the age-old grievance.

More often than not, this is taken to mean that the machine is constantly encroaching upon the right to labor and that the opportunity to earn a livelihood is constantly shrinking. In the narrow perspective of single industries this is true. The continuous mill in steel enables 4 men, operating gigantic machines housed in a building 2½ blocks long, to do the work formerly done by from 30 to 50 men. The continuous furnace and automatic machine in glass have almost entirely eliminated human labor, and machines of incredible deftness make and box matches and other articles without the touch of a finger. But these changes are probably no greater, relatively, than those ushered in by Stephenson's locomotive, which sounded the knell of the stagecoach and all that went with it, the passing of which is now one of the forgotten episodes of economic history.

The general level of employment is rising, not falling. Since the beginning of the century the number of workers has increased 20 percent more rapidly than the total population, and this in a period when the machine was advancing most rapidly. From 1900 to 1930, the population growth was 61.5 percent. From 1899 to 1929, industrial employment increased by 85.5 percent.

New industries have more than filled the gaps as the old have fallen from the ranks. Thirty million people, it is estimated, are dependent for their living upon 5 industries which had not been born or were in their infancy at the dawn of the century which has not yet run a third of its course. Bigger locomotives and better roadbeds have made it possible for crews to haul longer and heavier trains, and the railroads have been steadily increasing their traffic while reducing their payrolls—a continuation of the economic change which began when the locomotive supplanted the stagecoach. But new industrial armies have been recruited to build highways, operate motor trucks and buses and airplanes, and man the shops and garages to keep them in repair.

Technological unemployment is an ailment resulting not from the diminution of employment but from the immobility of employment, or its equivalent, industry. It arises not because there is less work to be done but because the worker is not in the right place and the equipment is not at hand to do it. Boilermakers cannot be converted into automobile makers or textile weavers overnight. Mechanics cannot be shifted from a declining to a growing industry by a factory order. Glassblowers cannot turn readily to another pursuit. Manufacture cannot be diverted from the making of commodities of which there is a surplus to the making of commodities of which there is a dearth, or of entirely new commodities which must be fitted into the pattern of existence or adjusted to the fluctuations in demand due to a dozen causes, without a long period of preparation and adjustment.

Left to itself, business sooner or later adapts itself to the conditions which impede its advance. Industry gathers its forces for new effort and masters the difficulties which brought it to a momentary halt. Gradually the maladjustment is righted, new tasks are set, unemployment declines, and the economic balance—the ideal of perfection at which modern economists aim—is restored.

But this is accomplished by the operation of the law of the jungle—the survival of the fittest. Payment is exacted in appalling distress and untold waste, and the grim threat of such a disaster raises it to the stature of a calamity by halting expenditure, stimulating the undue husbanding of resources to meet the anticipated shock, and checking consumption. The lethargic fear spreads to production, the pace of industry begins to lag, and the dreaded downward sweep of the business cycle is on.

The industrial structure cannot be buttressed against the tremors of industrial adjustment and change by the awakening of a sense of social justice or the intervention of a benevolent government. Too often efforts to alleviate the hardships of unemployment have the effect of prolonging it, as Great Britain's experience with the dole has revealed. Government attempts to counteract the oscillations frequently magnify the evil at which they are aimed. Glutted wheat, rubber, sugar, coffee, and other commodity markets bear witness to the futility of political maneuvers to steer industry clear of economic reefs and shoal waters. The ailment is a business ailment, and the remedy, if one is to be found, must be a business remedy.

III

Business stability is still a nebulous phrase. It cannot, without undue stretching, be made to fit the American ideal, which is based on growth, development, progress—all of them other names for change. Even in its more restricted sense, the constant balance of production and consumption, it might not be altogether desirable. Only by the arbitrary regulation and control of one or the other would it be practicable—at a cost which the public would probably be reluctant to pay.

The drive of individual enterprise which explores new paths, awakens new desires, and creates new products does not go hand in hand with arbitrary regulation and control. The one, actuated by the spirit of adventure, looks constantly to new horizons and envisions new conquests. The other holds to well-trodden ways. The public must choose between them. It cannot have both.

Production and employment could be kept at a constant level if the balancing were done on the side of consumption, and the public, instead of buying what it wanted, were compelled to take what was given it. Russia is conducting such an experiment on a colossal scale and it is the one country over which the shadow of unemployment has not fallen. Production has been stabilized, but by saying what food the people shall eat, what clothes they shall wear, and drawing the pattern of existence to which their lives shall conform. It is inevitable that any prescribed level of living shall be a lower level than that which would be attained by the exhilarating stimulous of individual striving.

In an industrial democracy like the United States, production is the servant, not the master, and industrial change may be regarded as a virtue, not a vice. The role of business is to meet new wants, to discover new and better ways of satisfying the old, to adapt itself to the vagaries of popular desire. There is no fixed and standardized order of living to which it may adjust itself. There is no definitely prescribed task for it to do. The census reports that there are 202,000 persons employed in the shoe industry. By working 300 days in the year, 81,811 workers could produce all of the shoes now made by the 202,000, but, to do this, it would be necessary to know a year in advance what kinds of shoes the public would demand, what styles would strike its fancy. All of the shoes needed could probably be produced by a smaller number of workers if the public were compelled to take the kind of shoes the manufacturers might choose to make. But shoes have long since ceased to be regarded merely as a protective covering for the feet.

Business might have assumed a greater degree of stability and, by the same token, a greater security of employment, if the public had been bound to continue to use brooms and farm wagons and ride in Concord coaches on the highways. But, instead, it gave the public carpetsweepers and automobiles and railroads, and thousands of workers were temporarily thrown out of employment and dismantled factories stood as a dismal reminder of the price of economic freedom. Undoubtedly, all of the evils of the present industrial system are not to be ascribed to a laudable effort on the part of business to give the public what it wants. Unrestrained production has led to a surplus both of plants and of output in many industries. To devise a system of reasonable direction and control is one of the immediate tasks it faces. But the essence of that direction and control must be voluntary cooperation, based on exact and comprehensive exchange of knowledge and experience between the units of industry.

It is inconceivable that business, by any possible measure of cooperation, can develop the prescience which will enable it to anticipate and prepare for the multitude of changes which are arising daily to impede its progress. Neither will government be any more successful in charting in advance for industry a course that will lie wholly in placid waters. Government is much less sensitive to the signs of approaching economic storm than business itself. Finally, it is to be doubted whether the public will forgo its freedom to purchase the things it wants in order that production may be safeguarded against the fluctuations and whims of consumer demand. Whatever its faults, the economic regime under which it has lived is one under which the United States has grown great. This country is the one important industrial power that has set up no artificial barriers against the evils of unemployment, but, up to the present time, it has been less in need of them than those countries where industry has fallen under the shadow of government.

IV

Because the ultimate goal of perfect flexibility, by which business can immediately adapt itself to changing conditions, is not in sight, it does not follow that the approach to it is hopelessly blocked. Nor is the failure to attain it adequate reason for scrapping the present industrial system and setting up one that might, in practice, prove to be much worse. In prospect, there are formidable difficulties—less dangerous because they cannot be immediately overcome than because they might be ignored. In retrospect, there is a record of achievement, especially during the past quarter century, which marks a significant advance in the self-regulation and self-control of industry and justifies the hope that eventually a way will be found to reduce substantially the dips and rises marking the oscillations from which most economic evils flow, and to assure a sufficient measure of permanency to provide a basis for insuring employment against the disturbing effects of changes which cannot be fathomed in advance.

Not the least significant aspect of the present depression is the recognition by business management that unemployment is not alone a social problem giving rise to deplorable human distress, but a source of prodigious economic waste. The Committee on Stabilization of Industry for the Prevention of Unemployment of the State of New York said in the opening paragraph of its report:

> From the viewpoint of business and the community, quite apart from the human suffering involved, unemployment represents waste and a bar to progress. Industrial and business leaders and government officials in this country are recognizing this fact, even as they rally their forces to meet the present need of relief.

Long before the signs of the present depression began to appear in the halting trade and industries of European countries—preceding by a considerable period the collapse of the bull market in the United States—business was applying itself to the task of reducing the waste that unemployment entails.

Normal fluctuation in employment, labor turnover, is equivalent to the labor of 1,500,000 to 1,750,000 workers in the manufacturing industries. The Commissioner of Labor Statistics estimates that 2,700,000 persons, out of a total of 9 million industrial workers, change their jobs during a single year. For this, business pays a direct charge in the cost of replacement and an indirect charge in the reduction of consuming capacity. Management, directing its attention to industrial relations, is constantly trying to reduce this ebb and flow by improving conditions under which employees work and live, by inducing them to identify their interest more closely with the interests of the industry in which they are employed through stock ownership and increasing participation in the direction of its activities. The human has become quite as important as the mechanical side of industry, but one lacks the spectacular and the dramatic elements of the other and is frequently overlooked.

From 375,000 to 400,000 workers are affected by seasonal fluctuations. Substantial progress in overcoming these irregularities has already been made. Every one of the 16 industrial groups into which industry is divided in the manufacturing census is represented by one or another of more than 200 individual plants or corporations which have undertaken stabilizing operations. Some keep the stream of production at even flow by adjusting it to the year-to-year rather than the season-to-season demand, making the necessary adjustment in accumulated stocks instead of in the rate of manufacture. Others accomplish the same purpose by the balancing of diversified production, counteracting the seasonal dip in demand for one commodity by the seasonal rise in the demand for another. Still others, such as the fruit packers, attain the necessary flexibility of production by coldstoring of primary materials which can be drawn upon as needed. Others, such as dairies, reverse the process by storing butter. Builders have extended seasonal operations by planning work under shelter during the inclement months.

These efforts to counteract the effects of industrial change are confined to the relatively narrow limits of single industries, but signs of a wider measure of cooperation to the same end are appearing on the business horizon. Trade associations are turning their attention to marketing with the general aim of adjusting production more accurately to consumption and avoiding the dislocations which result from excessive production.

Efforts are being made to place reasonable limitations upon the number of sizes and varieties of manufactured commodities and to check the multiplication of styles, the most intangible and elusive of the factors that make for industrial uncertainty, springing in many cases from an overzealousness on the side of production to meet the whims and idiosyncrasies of the few rather than the demands of the many. The shoe industry—including leather manufacturers, shoe manufacturers and distributors—is making such an attempt to keep style changes within reasonable bounds.

Cities, through their chambers and associations of commerce, are abandoning old booster methods of expanding their industries by the indiscriminate acquisition of plants, and are seeking only those which tend to counteract, rather than add to, the seasonal swing of unemployment. The principal industries of Rochester, N.Y., have evolved a plan of assuring to their workers a minimum period of employment through the year. Philadelphia, Fond du Lac, and other cities are working to similar ends.

These efforts constitute a beginning and are already fruitful of results, but their scope is limited. Many of the broader fluctuations and changes in industry lie beyond the control of individual management except in the case of the larger unit corporations—such as telephone and telegraph, railroad, steel, public utilities—in which widespread operations are directed by centralized administrative authority. The same end can be achieved by closer cooperation, by the development of efficient trade associations. To look to the future, it is fair conclusion that the necessary administrative direction will be established in one way or another—by the establishment of gigantic industrial units, each master of its own field, by the voluntary cooperation of smaller units, or, ultimately, by the injurious substitution for private management of rigid government control.

The laissez faire policy leads to the first. With every economic storm, smaller and weaker units are swept to destruction, clearing the way for merger and consolidation. The strong and the fit survive and extend their dominion; the weak pay the cost. Congress attempted to stem this tide of change by erecting a barrier of antitrust laws, but it is a serious question whether, in attempting to regulate the effects, it did not prevent the regulation of the cause; whether, in halting the stride of individual corporations toward industrial domination, it did not impede the advance of smaller corporations toward collective management of larger industrial affairs, for the conduct of which the public is now demanding that they be held responsible.

If the middle course is to be followed and industry, through voluntary cooperation, is to shoulder the burden of maintaining the uncertain economic balance and keep employment and productive enterprise more nearly on an even keel, the next practical step will be to enable industries to broaden the sphere of collective management in order to counteract the disturbing effects of economic change. Planning by individual industrial establishments to anticipate and prepare for seasonal changes, fluctuations in consumer demand, and technological development, might be broadened to planning by whole industries. Nor is there any economic reason why the process should stop there. As the individual manufacturer achieves stability of operation by making complementary commodities, the seasonal fluctuations of which counterbalance one another, complementary industries might mutually strengthen and support one another. Moves in this direction have already been made. More than 60 industries dealing with one or another phase of construction are attempting to meet on common ground to promote the stability of their operations.

V

At most it is not to be expected, nor is it to be desired, that business shall so manage its affairs that it will reach a state of perfect quiescence and serenity unruffled by change. Many of the disturbing influences lie beyond its control. Political upheavals which upset world markets, tariffs which impede the normal flow of trade currents, shifts in consumption due to changing custom, cannot be anticipated. The shadow of uncertainty cannot be altogether dispelled.

But, although the level of the industrial stream rises and falls, from year to year its flow continues. Business at the present times rides in triumph when it is at flood and stagnates when its currents grow sluggish. But the mean flow determines the rate of progress, and to this mean flow it is beginning to adjust itself. Business has gone further in this direction in the past quarter century than in all the years since the industrial revolution swelled the trickling rivulets of commodity production to turgid torrents. It is beginning to limit its operations not by its capacity to make but by its capacity to sell, and the alternate dips and crests due to production outrunning consumption are slowly being smoothed out.

Business management, in the case of individual establishments, has been able to gage and adjust itself to the mean level of consumer demand and reduce the margin of variation to such an extent that it is assured of a reasonable measure of continuity of operation, and can, by the same token, assure a reasonable measure of continuity of employment throughout the year. The necessary balance, to compensate for unforeseen changes, is attained by the device of insurance. By putting by a reserve from earnings when the tide is at its crest, to be drawn upon when the flow subsides, the necessary adjustments to compensate for changes which cannot be calculated in advance may be made.

Certain of the industries which meet needs that are continuous throughout the year and are not, for that reason, as subject as others to the fluctuations of a volatile or transitory demand—such as the trades affected by style changes—might, and probably will, follow the example of individual concerns. Whatever the rapids and narrows and the broad reaches where its currents lag, the stream of production flows on until it eventually meets the sea of consumption. In good times or bad, whether demand soars on the wings of speculative elation or plods slowly under the burden of fear, certain basic wants must be met. Nor are these the elemental wants which might have been recognized as essential a century or less ago. In the United States, at least, there is a level below which the standard of living will not be brought by anything short of a cataclysm. The identification of these wants and the means to supply them, a better knowledge of the permanent as distinguished from the transitory elements of our economic life, of the continuous rather than the impulsive changes, will provide a sufficient measure of certainty to enable business to go forward confidently and to adjust the employment necessary to the performance of this task in such a way that the worker will have the assurance of a stable income.

Whatever the causes, the effects of cyclical unemployment are obvious. It might begin in the collapse of fictitious values created by an outburst of speculation, in the accumulation of undigested surpluses of commodities, in the scarcity of working capital or the freezing of credit—in the piling up of obstacles which block the path of business. But it ends in fear and the loss of economic morale. Capital becomes apprehensive and investment lags. The worker begins to hoard his resources against the approaching rainy day. The buyer begins to curtail his purchases. Consumption hesitates, demand begins to shrink, production declines, and the shadow of unemployment deepens. Frantic attempts to prepare for the disaster often hasten its coming and prolong its stay.

If the fear of the evils that arise in the wake of depression of this magnitude can be allayed, many of them will probably not appear at all. If the worker were assured of a reasonable measure of employment, he would not husband his resources to meet the distress of unemployment, consumption would remain at a more nearly normal level, production would not halt.

The blighting effects of cyclical depression are not due solely to the inability of the unemployed to spend, but also to the disinclination of the employed to buy. In the United States at the beginning of this year there were, according to the Department of Commerce, 6 million unemployed, but the employed numbered probably 39 or 40 million. The saving of the many, rather than the deprivation of the few, had most to do with the hesitancy that was felt throughout the business structure. If the employed or a substantial number of the employed were assured that their work would continue, much of the apprehension would disappear, the business pace would quicken, and the margin of unemployment would probably be substantially reduced.

The social approach to the problem presented by the cyclical depression is to alleviate the distress of the unemployed, an obligation that must be recognized if society is to endure. The business approach is to safeguard the security of the employed as well as to provide work for those who are idle through no fault of their own; to control, as far as may be consistent with the traditional ideal of unregulated consumption, the dislocations and changes which retard the orderly advance of industry, and to develop its flexibility and resiliency so that it may adapt itself to new conditions which are the inevitable accompaniment of growth.

Difficult as the attainment of this ideal may be, it is not altogether visionary. Business has already laid a practical basis for further attempts along this line. If the methods already pursued by individual concerns can be followed by industries and groups of industries, many of the hazards of employment will be avoided and industry will march with surer pace.

For nearly two centuries industry has been building the gigantic productive machine which has lifted from millions of human beings the threat of starvation and want and has set new limits of sustenance for the increasing populations of the world. Beginning by harnessing water, it brought steam under control and is now developing electricity and releasing the forces locked in the chemical balance of the constituents of matter. It has applied this power literally to the moving of mountains as well as to the stitching of gloves and the wrapping of a stick of chewing gum.

It is conceivable that this resourcefulness has developed so rapidly that it has not been applied skillfully to the uses to which it may be put. It is inconceivable that it shall be arbitrarily halted because the most has not been made of it. Already business is occupied with the task of bringing this power under better direction and control. Having built the machine, industry is devising ways of using it to greater advantage. It is turning its attention from the development of production to development of distribution, to making the machine subservient, not hostile, to human needs. Perhaps industry is entering upon its second phase of revolutionary development, which is the logical sequence of the first industrial revolution which marked the rise of the present economic system.

Of necessity this second phase must, for a time, be a record of experiment and trial. The habits and customs which characterize the world of business cannot be brought into conformity with a social ideal overnight. But neither can they be recast in a new mold by arbitrary decree. It does not lie with Government any more than with any of its citizens to flout economic law, and only injury and misdirection and delay would result from political interference with the working out of these natural forces.

[From "The Forum," January 1931]

CAUSES OF WORLD DEPRESSION

(By John Maynard Keynes)

The world has been slow to realize that we are living this year in the shadow of one of the greatest economic catastrophes of modern history. But now that the man in the street has become aware of what is happening, he, not knowing the why and wherefore, is as full today of what may prove excessive fears as, previously, when the trouble was first coming on, he was lacking in what would have been a reasonable anxiety. He begins to doubt the future. Is he now awakening from a pleasant dream to face the darkness of facts? Or is he merely dropping off into a nightmare which will soon pass away?

He need not be doubtful. The other was not a dream. This is a nightmare, which will pass away with the morning. For the resources of nature and men's devices are just as fertile and productive as they were. The rate of our progress toward solving the material problems of life is not less rapid. We are as capable as before of affording for everyone a high standard of life—high, I mean, compared with, say, 20 years ago—and will soon learn to afford a standard higher still. We were not previously deceived. But today we have involved ourselves in a colossal muddle, having blundered in the control of a very delicate machine, the working of which we do not understand. The result is that our possibilities of wealth may run to waste for a time—perhaps for a long time.

I doubt whether I can hope, in this article, to bring what is in my mind into fully effective touch with the mind of the reader. I shall be saying too much for the layman, too little for the expert. For—though no one will believe it—economics is a technical and difficult subject. It is even becoming a science. However, I will do my best—at the cost of leaving out, because it is too complicated, much that is necessary to a complete understanding of contemporary events.

MANUFACTURERS AND PRIMARY PRODUCERS

First of all, the extreme violence of the slump is to be noticed. In the three leading industrial countries of the world—the United States, Great Britain, and Germany—10 million workers stand idle. There is scarcely an important industry anywhere earning enough profit to make it expand, which is the test of progress. At the same time, in the countries of primary production the output of mining and of agriculture is selling, in the case of almost every important commodity, at a price which, for many or for the majority of producers, does not cover its cost. In 1921, when prices fell as heavily, the fall was from a boom at which producers were making abnormal profits. But there is no example in modern history of so great and rapid a fall of prices from a normal figure as has occurred in the past year. Hence the magnitude of the catastrophe.

The time which elapses before production ceases and unemployment reaches its maximum is, for several reasons, much longer in the case of the primary products than in the case of manufacture. In most instances the production units are smaller and less well organized among themselves for enforcing a process of orderly contraction; the length of the production period, especially in agriculture, is longer; the costs of a temporary shutdown are greater; men are more often their own employers and so submit more readily to a contraction of the income for which they are willing to work; the social problems of throwing men out of employment are greater in more primitive communities; and the financial problems of a cessation of production of primary output are more serious in countries where such primary output is almost the whole sustenance of the people.

Nevertheless we are fast approaching the phase in which the output of primary producers will be restricted almost as much as that of manufacturers. This will have a further adverse reaction on manufacturers, since the primary producers will have no purchasing power wherewith to buy manufactured goods. And so on, in a vicious circle.

In this quandary individual producers base illusory hopes on courses of action which would benefit an individual producer or class of producers so long as they are alone in pursuing them, but which benefit no one if everyone pursues them. For example, to restrict the output of a particular primary commodity raises its price, so long as the output of the industries which use this commodity is unrestricted; but if output is restricted all around, then the demand for the primary commodity falls off by just as much as the supply, and no one is further forward. Or again, if a particular producer or a particular country cuts wages, then so long as others do not follow suit, that producer or this country is able to get more of what trade is going. But if wages are cut all around, the purchasing power of the community as a whole is reduced by the same amount as the reduction of costs; and, again, no one is further forward.

Thus neither the restriction of output nor the reduction of wages serves in itself to restore equilibrium.

Moreover, even if we were to succeed eventually in reestablishing output at the lower level of money-wages appropriate to (say) the prewar level of prices, our troubles would not be at an end. For since 1914 an immense burden of bonded debt, both national and international, has been contracted, which is fixed in terms of money. Thus every fall of prices increases the burden of this debt, because it increases the value of the money in which it is fixed.

For example, if we were to settle down to the prewar level of prices, the British national debt would be nearly 40 percent greater than it was in 1924 and double what it was in 1920; the Young plan would weigh on Germany much more heavily than the Dawes plan, which it was agreed she could not support; the indebtedness to the United States of her associates in the great war would represent from 40 to 50 percent more goods and services than at the date when the settlements were made; the obligations of such debtor countries as those of South America and Australia would become insupportable without a reduction of their standard of life for the benefit of their creditors;

agriculturists and householders throughout the world, who have borrowed on mortgage, would find themselves the victims of their creditors.

In such a situation it must be doubtful whether the necessary adjustments could be made in time to prevent a series of bankruptcies, defaults, and repudiations which would shake the capitalist order to its foundations. Here would be a fertile soil for agitation, seditions, and revolution. It is so already in many quarters of the world. Yet, all the time, the resources of nature and men's devices would be just as fertile and productive as they were. The machine would merely have been jammed as the result of a muddle. But because we have magneto trouble, we need not assume that we shall soon be back in a rumbling wagon and that motoring is over.

SOME LEADING QUESTIONS

We have magneto trouble. How, then, can we start up again? Let us trace events backward:

1. Why are workers and plant unemployed? Because industrialists do not expect to be able to sell without loss what would be produced if they were employed.

2. Why cannot industrialists expect to sell without loss? Because prices have fallen more than costs have fallen—indeed, cost have fallen very little.

3. How can it be that prices have fallen more than costs? For costs are what a business man pays out for the production of his commodity, and prices determine what he gets back when he sells it. It is easy to understand how for an individual business or an individual commodity these can be unequal. But surely, you say, considering the community as a whole the businessmen get back the same amount that they pay out, since what they pay out in the court of production constitutes the income of the public, and the public pays this income to the business men in exchange for their products. For this is what we understand by the normal circle of production, exchange, and consumption.

4. No. Unfortunately this is not so; and here is the root of the trouble. It is not true that what the businessmen pay out as costs of production necessarily comes back to them as the sale proceeds of what they produce. It is the characteristic of a boom that the sale proceeds exceed costs; and it is the characteristic of a slump that costs exceed sale proceeds. Moreover it is a delusion to suppose that businessmen can necessarily restore equilibrium by reducing their total costs, whether it be by restricting their output or cutting rates of remuneration; for the reduction of their outgoings may, by reducing the puchasing power of the earners (who are also their customers), diminish their sale proceeds by a nearly equal amount.

5. How, then, can it be that the total costs of production for the world's business as a whole can be unequal to the total sale proceeds? Upon what does the inequality depend? I think I know the answer. But it is too complicated and unfamiliar for me to expound it here satisfactorily. (Elsewhere I have tried to expound it accurately.) So I must be somewhat perfunctory.

Let us take, first of all, the consumption goods which come on the market for sale. Upon what do the profits (or losses) of the producers of such goods depend? The total costs of production, which are the same thing as the community's total earnings looked at from another point of view, are divided in a certain proportion between the cost of consumption goods and the cost of capital goods. The incomes of the public, which are again the same thing as the community's total earnings, are also divided in a certain proportion between expenditure on the purchase of consumption goods and savings.

Now if the first proportion is larger than the second, producers of consumption goods will lose money; for their sale proceeds, which are equal to the expenditure of the public on consumption goods, will be less (as a little thought will show) than what these goods have cost them to produce. If, on the other hand, the second proportion is larger than the first, then the producers of consumption goods will make exceptional gains. It follows that the profits of the producers of consumption goods can only be restored either by the public's spending a larger proportion of its income on such goods (which means saving less), or by a larger proportion of production taking the form of capital goods (since this means a smaller proportionate output of consumption goods).

But capital goods will not be produced on a larger scale unless the producers of such goods are making a profit. So we come to our second question: Upon what do the profits of the producers of capital goods depend? They depend on whether the public prefers to keep its savings liquid in the shape of money or the equivalent or to use them to buy capital goods or the equivalent. If the public is reluctant to buy the latter, then the producers of capital goods will make a loss; consequently less capital goods will be produced, with the result that, for the reasons given above, producers of consumption goods will also make a loss. In other words, all classes of producers will tend to make a loss; and general unemployment will ensue. By this time a vicious circle will be set up, and, as the result of a series of actions and reactions, matters will get worse and worse until something happens to turn the tide.

This is an unduly simplified picture of a complicated phenomenon. But I believe that it contains the essential truth. Many variations and fugal embroideries and orchestrations can be superimposed; but this is the tune.

THE CREDIT SITUATION

If, then, I am right, the fundamental cause of the trouble is the lack of new enterprise due to an unsatisfactory market for capital investment. Since trade is international, an insufficient output of new capital goods in the world as a whole affects the prices of commodities everywhere and hence the profits of producers in all countries alike.

Why is there an insufficient output of new capital goods in the world as a whole? It is due, in my opinion, to a conjunction of several causes. In the first instance it was due to the attitude of lenders, for new capital goods are produced to a large extent with borrowed money. Now it is due to the attitude of borrowers, just as much as to that of lenders.

For several reasons lenders were, and are, asking higher terms for loans than new enterprise can afford. First, the fact that enterprise could afford high rates for some time after the war while war wastage was being made good accustomed lenders to expect much higher rates than before the war. Second, the existence of political borrowers to meet treaty obligations, of banking borrowers to support newly restored gold standards, of speculative borrowers to take part in stock exchange booms, and, latterly, of distress borrowers to meet the losses which they have incurred through the fall of prices, all of whom were ready if necessary to pay almost any terms, has hitherto enable lenders to secure from these various classes of borrowers higher rates than it is possible for genuine new enterprise to support.

Third, the unsettled state of the world and of national investment habits has restricted the countries in which many lenders are prepared to invest on any reasonable terms at all. A large proportion of the globe, is for one reason or another, distrusted by lenders, so that they exact a premium for risk so great as to strangle new enterprise altogether. For the last 2 years, two out of the three principal creditor nations of the world; namely, France and the United States, have largely withdrawn their resources from the international market for long-term loans.

Meanwhile, the reluctant attitude of lenders has become matched by a hardly less reluctant attitude on the part of borrowers. For the fall of prices has been disastrous to those who have borrowed, and anyone who has postponed new enterprise has gained by his delay. Moreover, the risks that frighten lenders frighten borrowers, too.

Finally, in the United States the vast scale on which new capital enterprise has been undertaken in the last 5 years, has somewhat exhausted for the time being—at any rate so long as the atmosphere of business depression continues—the profitable opportunities for yet further enterprise. By the middle of 1929 new capital undertakings were already on an inadequate scale in the world as a whole, outside the United States. The culminating blow has been the collapse of new investment inside the United States, which today is probably 20 to 30 percent less than it was in 1928. Thus in certain countries the opportunity for new profitable investment is more limited than it was, while in others it is more risky.

A wide gulf, therefore, is set between the ideas of lenders and the ideas of borrowers for the purpose of genuine new capital investment; with the result that the savings of the lenders are being used up in financing business losses and distress borrowers, instead of financing new capital works.

AFTER THE DIAGNOSIS

At this moment the slump is probably a little overdone for psychological reasons. A modest upward reaction, therefore, may be due at any time. But there cannot be a real recovery, in my judgment, until the ideas of lenders and the ideas of productive borrowers are brought together again—partly by lenders becoming ready to lend on easier terms and over a wider geographical field, partly by borrowers recovering their good spirits and so becoming readier to borrow.

Seldom in modern history has the gap between the two been so wide and so difficult to bridge. Unless we bend our wills and our intelligences to find a solution along these lines, and are energized by a conviction that this diagnosis is right, then, if the diagnosis is right, the slump may pass over into a depression, accompanied by a sagging price level, which might last for years with untold damage to the material wealth and to the social stability of every country alike. Only if we seriously seek a solution will the optimism of my opening sentences be confirmed—at least for the nearer future.

It is beyond the scope of this article to indicate lines of future policy. But there is no one who can take the first step except the central banking authorities of the chief creditor countries nor can any one central bank do enough acting in isolation. Resolute action by the Federal Reserve banks of the United States, the Bank of France, and the Bank of England might do much more than most people, mistaking symptoms or aggravating circumstances for the disease itself, will readily believe.

In every way a most effective remedy would be that the central banks of these three great creditor nations should join together in a bold scheme to restore confidence to the international long-term loan market—which would serve to revive enterprise and activity everywhere, and to restore prices and profits, so that in due course the wheels of the world's commerce would go around again. Even if France, hugging the supposed security of gold, prefers to stand aside from the adventure of creating new wealth, I am convinced that Great Britain and the United States, like minded and acting together, could start the machine again within a reasonable time—if, that is to say, they were energized by a confident conviction as to what was wrong.

For it is chiefly the lack of this conviction which today is paralyzing the hands of authority on both sides of the channel and on both sides of the Atlantic.

[From the Forum, September 1932]

THAT ELUSIVE EQUILIBRIUM

(By Richard A. Lester)

A century ago Carlyle said: "Teach a parrot the phrases 'Demand' and 'Supply' and you have made a political economist." Were he living today he would probably say: "Teach a parrot the phrases 'Readjustment' and 'Equilibrium' and you have made not only an economist, but 6 businessmen, 16 bankers, half a financial page, and practically the entire economic programs of both our leading political parties."

Readjustment and equilibrium. Will our financial page prophets never tire of telling us their bedtime stories? How often have we read of that "period of liquidation" we are passing through, that "readjustment" which is taking place "all along the line," and that "equilibrium" which is so rapidly being restored?

Back in June 1931, B. M. Anderson, economist of the Chase National Bank, wrote in the Chase Bulletin:

> Readjustment is now in process. * * * Men released from work in one field are seeking work elsewhere. Businessmen, finding certain lines unprofitable, are looking eagerly for other lines which may be made profitable. * * * The process of reequilibriation is going on.

Needless to say it is still going on; that is, if it ever got started.

One year later, June 19, 1932, to be exact, the genial Charles M. Schwab made an address before the American Iron and Steel Institute, of which he is president. In the address, he said:

> "The revival of our industry depends not only upon balancing the budget in our own industry but also on the reestablishment of equilibrium in the total economy of commerce. * * * We and the rest of the world are the victims of a lopsided deflation. If at one stroke it had been feasible to deflate prices, security values, realty, wages, taxes, earnings, debts, and credits, all to the same degree and all at one time, the disturbance would have been relatively negligible, because the interrelationship of all the factors would have remained the same. In actual practice a uniform deflation never occurs, because some costs occupy a protected position, while other items yield more easily to economic upsets."
> And Mr. Schwab ended his address with this delightful observation: "Not fearing the future, ready to face every issue, and determined to fight for what we believe, we are on the path toward equilibrium."

One is tempted to add an "Oh yeah?" to that last sentence. But instead, let us look at a few facts and figures to see what Mr. Schwab's own industry is doing to help reestablish this so-necessary equilibrium, to prevent this "lopsidedness" which is prolonging our distress.

A few days before his speech, the entire iron and steel industry adjusted wages 15 percent downward, making a 25-percent cut in wage rates since the fall of 1930. The day he made his speech the papers announced: "Steel producers throughout the country are considering an advance of $2 a ton on steel slabs and billets to be delivered after

July 1"—an adjustment upward. And in his speech Mr. Schwab declared that Congress should put a higher tariff on iron and steel products—obviously so that foreign competition will not interfere with such upward adjustments.

Such is the unselfish policy of our iron and steel companies—to cut wages paid and to increase prices charged. Is that, one wonders, the way the "readjustment" is to be brought about? Is that how the deficient purchasing power is to be provided to buy the oversupply of goods our industries have produced? Is that how the "lopsidedness" which is prolonging our distress is to be corrected? Is that the policy which is to lead us "on the path toward equilibrium?"

You may wonder why I am emphasizing the words of Mr. Schwab, I [illegible] so because they are typical of our business leaders, who preach one thing and then, as directors of large concerns, turn around and, hoping to advance their own selfish interests, practice the opposite. Mr. Schwab admits that "the disturbance would have been relatively negligible" if some costs didn't "occupy a protected position." The prices of iron and steel products are some of these "protected costs"—costs to the construction industries which use them. The prices of some iron and steel products (bar iron and steel rails, for example) have not fallen since the slump began, and some other prices (wire nails, galvanized sheets, barbed wire ,wire rods, etc.) have been increased since the beginning of 1931—all this during a period in which prices in general have been continually falling over 12 percent a year and farm prices about 20 percent a year. Yet in spite of this, Mr. Schwab asks that these prices, already way out of line with prices in general, be given the added protection of a higher tariff.

How about the buyers of iron and steel products? Are they to be protected? No. Their costs are increased by these higher prices for iron and steel products. Are the workers to be protected? No. They are "staggered" and their pay is cut as the companies see fit.

But, you may complain, wouldn't a tariff on iron and steel products help iron and steel workers? Let me reply by asking another question: Have these higher prices for steel products helped the workers? The answer is definitely, "No." Because the prices of steel products are so high, the demand for steel products has fallen off until today our steel plants are operating at only 15 percent of their capacity, payrolls are 25 percent of what they were in 1929, and unfilled orders (largely for public works) are "the smallest on record."

These figures cause one to doubt whether even the iron and steel companies benefit a great deal by their price policy. However that may be, such a follow-the-leader price policy is, in most cases, detrimental to the public welfare. Speaking on this point before the Cleveland meeting of the American Economic Association in December 1930, Prof. Willard L. Thorp, of Amherst, said:

> The businessman at present is vigorously resisting any further reduction in prices. By concerted action the steel and copper industries appear to have succeeded in advancing prices in the face of large stocks on hand and idle capacity. Other businessmen are demanding * * * that the antitrust laws be relaxed in order that they may legally and publicly stabilize their industries. * * * Such stabilization of prices would probably mean in most industries increased fluctuations in production and employment. In fact, in those industries in which price has been somewhat stabilized by the dominance of large corporations, as in iron and steel, the fluctuations in production have increased

in recent years. It is this price stabilization policy which in large part explains the results of investigations by the National Bureau of Economic Research showing that employment fluctuations are greatest in the case of large concerns. This policy tends to stabilize inventory losses and therefore stabilizes profits somewhat, but it may seriously increase the instability of the worker.

Professor Thorp here clearly points out what it means to the worker to have large industries in monopoly positions peg their prices by allowing production, employment, and payrolls to fluctuate. The next question is: How does such a policy affect not only the customers of the steel, cement, or aluminum companies by the economic well-being of the whole country?

Obviously the companies themselves do not bear the burden of relief necessitated by such wide fluctuations in employment and payrolls. That burden, because of our American program of faith, hope, and strictly local charity, is thrown upon friends, relatives, and taxpayers, and not so much the income-tax payers as real estate owners, for between 80 and 90 percent of our local taxes are levied on real estate.

In the second place, those large industrial concerns which, through patent monopolies, trade associations, tariffs, etc., are able artificially to peg their prices and to force other producers who are enjoying that much-lauded condition of competition (lauded the more the less there is of it) to bear the burden of the price fall. How does this come about?

It is quite obvious that, if all commodity prices are increased at once, fewer commodities will be sold. With prices higher and our money incomes the same as before, we cannot buy so much. Likewise, if prices remain the same but our money incomes are cut off or at least decreased, we are forced to cut down on the amount we spend, and less goods will be sold. In either case we would suffer from "overproduction," because prices did not fall as they should have in order to sell all the goods which were for sale.

Now if the prices of some items in our budgets remain fixed, and we cannot do without them (under this category public utility rates are especially important), we are, of course, forced to cut elsewhere. Some cut on luxuries; some on clothes; some are forced to cut even on food—recent events have demonstrated that the human stomach is somewhat more elastic that Adam Smith seems to have supposed. It is in this way that the fixed utility rates and "stabilized" prices of some products cause a decrease in the demand for some other products. And if the producers of those other products cannot shut off production and peg their prices, the prices of their products are bound to fall.

Take the case of the farmer. Unlike the steel company, he does not quote his prices to the buyer. His prices fluctuate with changes in demand and supply and with speculation on the exchange. Again, unlike the steel company, he produces by the season, not according to unfilled orders. He can't shut down part of his plant overnight, produce at 15 percent of capacity, and declare that after July 1 the price of wheat will be 10 cents higher. Nor can he service-charge his unprofitable crops as the banker service charges his "unprofitable" accounts (unprofitable till hoarding began—and then the tune changed, but not the charges). All this helps to explain why, though most farm products are absolutely essential for existence, their prices always fall furthest during a depression; why, though our population keeps on increasing and our crop production does not, prices of farm products continually make new lows, whereas prices of many of the things the farmer has to buy are still the same or possibly higher than they were a year ago. As C. F. Hughes has pointed out in his column in the New York Times, "if the key to recovery lies in adjusting this unbalance, then there is little sign of progress."

This leads to the third point; namely, that this stabilization of some individual prices, by forcing other prices to fluctuate all the more widely, only increases the "lopsidedness" of our depression. In the words of Dr. Warren M. Persons, these "pegged prices, wages, and rates now absorb such a large portion of the budgets of corporations and families as to result in a complete disarrangement of the price structure which acts as a 'log-jam' to recovery." Mr. Schwab is quite right. "We and the rest of the world are victims of a lopsided deflation." But how he is able to jump from that observation to the conclusion that "we are now on the road to equilibrium" my simple mind simply cannot comprehend.

"UNFREEZE" PRICES

Instead of helping to remedy economic disturbances, the policies of some of our large corporations have been such as tend to further unbalance the economic system. Their "frozen" prices helped to bring on the boom and are now helping to prolong and intensify the depression. The protest of the 125 economists against repealing the antitrust laws pointed this out just the other day. Never before have we had so many prices fixed either by monopoly or Government commissions as we had just before the crash and have had since that event. That is a condition which, unlike prosperity, is not around any mythical corner but right before our very eyes.

And what do we do about it? In Germany the Chancellor had to declare, or dictate if you like, a cut in all prices in order to bring monopoly prices down below the point at which the cartels had fixed them. England, by going off the gold standard, relieved her industry from some of the strain caused by fixed prices and wage rates. In this country most of us are still trying to discover prosperity in the newspapers and singing "Happy days are here again," or something similar, while chambers of commerce, corporation lawyers, and others like James R. Garfield, chairman of the resolutions committee of the Republican National Convention, clamor for repeal of the antitrust laws so that certain favored producers can freeze their prices tighter or raise them further. To be sure, the Democratic convention at Chicago defied big business by adopting a platform in which the "strict and impartial enforcement of the antitrust laws to prevent monopoly and unfair trade practices" is "advocated." However, the Republicans will be in the saddle until March 4 at least.

For almost 3 years now we have been chasing those elusive elves, prosperity and equilibrium, from corner to corner along a downward sloping curve of business. During this period we have witnessed the selfish attempts of the business powers-that-be to save themselves at the expense of the general welfare of the country. They have been "freezing" their prices and cutting down on production, employment, and payrolls; yet they admit quite readily, when asked, that the depression is the result of deficient consumer purchasing power, never realizing (or not wishing to realize), that their policy of high prices and small pay only aggravates this difficulty. Instead they blame Congress and talk glibly of a return of "confidence"—the return of which their very policies help to prevent.

He is indeed an optimist who today talks of business "automatically adjusting" itself. Maladjustment led up to the crash, and we have been "maladjusted" ever since that sad event. Disequilibrium, not equilibrium, seems to characterize our business system. Adam Smith might well have talked of the "economic harmonies" and the "invisible hand" which guides all earthly things in a heavenly manner. In those days it wasn't quite so foolish, during a period of economic difficulties, to advise sitting tight till "things readjusted"—fell back together again. But under our present conditions, a sit-tight retrenchment policy is futile, for, confronted with a difficult situation, many of our business "leaders" react to it in a way that only aggravates the trouble. Our business structure has become too delicate to hold up under a falling price level and too rigid in parts for readjustments to occur automatically. As we have observed, certain powerful interests bring pressure to prevent their occurring.

In such a condition an aggressive policy on the part of the Government is required if those prices which have already fallen the furthest are not to fall still further and if payrolls and employment are not to decline from month to month as they have since the crash. Enforcement of the antitrust laws to prevent price pegging and cuts in utility rates to bring them into line with prices in general would help to relieve those who are being pinched and impoverished by fixed prices. But such measures offer slight comfort to those who are being crushed by fixed debts, the burden of which has been increasing with the fall in prices and the cuts in pay. There is no legal method of loosening up fixed debts as there is of fixed prices. Though ideas on prices have changed considerably since the medieval days of "just price," ideas on debts have not changed since the days when prices were so invariable that they could be engraved on stone in the city marketplace. Today the only legitimate way debtors suffering from a dishonest dollar can be relieved is by a rise in the general level of prices, which would increase their incomes proportionately. An immediate and decided upward turn in the general curve of prices is imperative if widespread debt repudiation or more extensive pawnbroking by the Government is to be prevented.

THE ADMINISTRATION'S EFFORTS

For the past 9 months the administration has been trying to bring about such a rise in the level of prices—some call it inflation; others think "reflation" sounds less radical. No matter what the name, the fact is that it was an attempt to bring about credit expansion by means of bank relief through the Reconstruction Finance Corporation followed by purchases of Government securities by the Federal Reserve banks. But the Federal Reserve banks cannot force private bankers to make risky loans or force unprofitable businesses to increase their bank borrowings. Both the banks and the borrowers must expect to profit from loans before such loans will be negotiated. It is just because bank credit is so tied up with profits that the administration's policy has, so far, failed to bring about the hoped-for reflation. Each week the amount of bank credit outstanding continues to dwindle away.

That is all the more discouraging since the administration's reconstruction and relief policy has been, and still is, based wholly on the hope that individual initiative will soon bring about a marked rise in the level of prices. Now it is probably too late to initiate any other thoroughgoing program for revival so that, should a rapid rise in the price level fail to occur, as now seems likely, then devaluation (diminishing the gold content of the dollar to compensate for its rise in value) or a new attempt at inflation will be the only alternatives to a continued tightening of our belts, notch by notch, while praying for a lucky break before another type of "readjustment" takes place. Nowadays only professional optimists, financial-page writers, and apologetic business barons talk glibly of a quick, easy, and automatic return to equilibrium.

[From "The Unemployed Workers", Yale University Press, 1940]

JOB HUNTERS

(BY E. WIGHT BAKKE*)

The foreman tapped Joseph Torrio on the shoulder as he pulled the switch on his machine. "Clapham wants to see you, Joe."

"You mean—I'm getting my time, Jim?"

"Just temporary, I hope, and you know what I think of your work, old man. It won't be long—unless—but why worry about it? Clapham will give you the dope."

With a slow step Joe headed for the front office where Clapham, the company's personnel department, was already telling some of his mates what Joe knew to be "the bad news." He sat down on a bench in the outer office. His turn had come. Here he was an 18-year man. Others had been laid off one by one, but he had thought his job was safe. Why, he had been a foreman in the night shift during the war, and now Clapham was going to tell him the bad news. It wouldn't be easy for Clapham, for in spite of the fact that the workers dubbed the personnel department, "the worse-n-hell department," Clapham was a good egg. He knew most of the men by sight if not by name.

"Torrio," called the office boy.

As he walked out the front gate he could hardly remember what Clapham had said. He had been thinking his own thoughts. A phrase or two penetrated his preoccupation. "Tough break * * * no new orders * * * maybe only a short time * * * but better look around, no telling when * * * call you if things pick up."

This was not the first time he had been laid off, but this time the ugly rumors that "the company was slipping," that "the whole damned country is on the rocks," had created a fear he had not felt before. He'd lay off a couple of weeks—he deserved a vacation after 8 years of steady work. But if he didn't get called back in that time, he'd start hunting another job.

Joseph Torrio in 1933 had about 18,000 companions in the city who joined him in this search for work. What kind of job is looking for a job, and how did these workers who had been "told the bad news" go about that task? They came to unemployment with an economic equipment which we have attempted to describe in some detail. We have suggested that they are motivated in their economic activity by the desire to play one or more socially respected roles, to obtain the measure of economic security deemed possible by their associates, to gain an increasing degree of control over their own affairs, to understand the casual forces in their problems of self-maintenance. We have surveyed the essential controlling conditions of their economic environment and the effect of these in furthering or frustrating their progress toward these goals. We have recorded the normal adjustments made in the face of these conditions, which adjustments provide them with a stock of habitual practices available as suggestive alternatives in meeting the problem of unemployment.

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How did they use this equipment in effecting the new economic adjustments made necessary by the loss of their jobs? In the following chapters we shall try to share the experience of Torrio and his mates as they set about bridging the gap between jobs.

THE JOB OF JOB HUNTING

In a factory town the great majority of workers are accustomed to assume that factory employment is the major, if not the only, possibility of making a living. Joseph Torrio after his 2 weeks' vacation "pounded pavements" for an additional 4 weeks. We need not go with him to every gate, but a sample of his experiences taken from his diary kept for us during that time will help us to understand why he left off searching for that kind of job 6 weeks after his layoff.

April 19, 1934

Decided to have a go at the State employment office. Got there at 8. Fellow I knew sitting on steps. Big sign there "No loitering in the doorway." Janitor or someone came down and asked him to move.

"Are you going upstairs?" he asked. "If you are, go, but don't sit here." The fellow jumped; not looking at the janitor, he began a loud bluster about his father paying taxes to support the place and he could sit on the steps if he wanted to. When the janitor left, he returned to the steps for a moment. Meanwhile a group of people had gathered to see what was going on.

Asked the janitor when the manager would be in. He said, "9 o'clock." Decided to come back. When I got back, a line had formed clear out into the street. I took my place. Officials and clerks kept coming and had a good cheery word for us as they passed. But after they had gone, many sarcastic remarks followed them like, "Gives you a nice smile, but that's all."

The manager himself drove up before the office a little past 9—appeared sore that there was no parking space in front of the office. The fellows standing outside purposely raised their voices so he could hear and made remarks such as, "Not much use coming here, they never do anything but tell you to come back in 60 days"; "What'd they ever do for me?—Nothing"; "First it was April 1, then it was the 15th, and now it will be God knows when."

One of the young fellows asked an official of the bureau as he entered the building if there was anything in his line available—stated he was a soda jerker or plumber's helper—or he'd "take anything." The official smiled and wanted to know if the fellow was following the ads in the newspaper. The fellow returned to the group, swore a moment, and asked, "Who ever got a job from the ads in a paper?"

Fellow next to me was apparently an electrician. He was sore because he couldn't get a PWA job. He said, "All these contractors have their own men and when this employment office tries to do the hiring for the PWA jobs, it doesn't know where to get off. The PWA provision reads that the contractor must take men from the State employment bureau where they are able to do the work. Well, the bureau sends its men out. They work for a day, and then they are let go as not fit for the job; then the contractor has fulfilled the specifications and hires his own men."

I register, but they say not much chance today; maybe a week from today. I go out. Tony grabs my arm. He says, "Work?—there is no work. I go to the employment office. I stand and wait. Soon—my turn. I give the girl my card. She takes it, turns it over and over in her hand. Bluff—just to take up time. By and by, she gives it back. 'Sorry, nothing today.' I say, 'But I no work in 3 years, with seven children, what do I eat?' She reply, 'Come back again, maybe soon there will be something.' It is the big bluff."

Jim joins us at the foot of the stairs. He's mad too. "God, I'm disgusted with this place, and everybody else is that I know. Some fine day a mob's going to drop down on this place and tear it apart. I'm telling you, these fellows from down around Wooster Street aren't going to take this tomorrow business forever."

Looks as though I'd be better off to depend on the grapevine. Word gets around plenty fast if they're taking men on any place.

April 27

Up at 7, cup of coffee, and off to Sargent's. Like to be there when the gang comes to work, the lucky devils. Employment manager not in. Waited in his outer office fitted with 6 benches and about 30 nearly worn out chairs. Took a bench—looked more likely to stay up. Three others waiting, two reporting for compensation. Other one laid off 2 weeks ago and said he called at office every day. *He inquired* what I was doing and when I said "looking for work" he laughed. "You never work here? No? What chance you think you got when 400 like me who belong here out?" Employment manager showed up at 9:30. I had waited 2 hours. My time has no value. A pleasant fellow; told me in a kind but snappy way business was very bad. What about the future, would he take my name? Said he referred only to the present. Nothing more for me to say, so left. Two more had drifted into office. Suppose they got the same story. Must be a lot of men in New Haven that have heard it by now.

Down Chestnut Street to Peck Bros. Thought something might be going there. Since beer bill they have been calling back old employees, might have use for another hand. No real employment office here. From street into a long hall with two offices both with clerks on each side of hall. Picked the wrong one. Smart flapper didn't even speak just tossed her head and thumb in the direction of across the hall. Went across and another girl at an information desk asked if I had ever worked there before. Told her "No." She said no immediate chance then, but I could file an application; but added, "It won't do you no good as there is plenty of our own men to fill the jobs for some time to come." Guess I won't get a job till they've skimmed the cream from their own men. That's proper of course and a good break for them. But if it's like this all over, what's the point in applying for jobs? Filled out application anyway—might as well, didn't have any better way to spend my time. No one else here looking for work.

No heart for any more so dropped into Jake's for a doughnut and a glass of milk and then went home.

April 28

To New Haven Clock Co. Met a company "dick" who said plant was shut down till Monday. Gave me an application blank and said, "You look all right, fill this out in ink. Do it neatly, and they may give you a break. Do you know anybody inside?" I said, "No." Then he shrugs his shoulders and says, "Well, I don't know if there is much use you sending this in then, but you might try."

In the afternoon went to the park and talked with men trying to find out what luck they had had. No good news.

May 2

Started out at seven for New Haven Clock Shop. No one in employment office. Lady at information desk asked, "What do you want?" I told her. She wanted to know if I had worked there before and when I said "No," she didn't even ask if I had any experience in clockmaking (which I have). And when I started to tell her so, she cut me off with, "No use—sorry." Suppose she gets tired too.

From Clock Shop to E. Cowells & Co. who make auto equipment. If they want to have old men, well, I worked here in 1916 and 1917. Didn't get to see anyone here because just as you get to the hall there is a big sign "No Help Wanted." You can't miss it, and I find it kind of hard to disregard a sign of that type. I assume it means what it says or they wouldn't have gone to the trouble and expense to have it painted. I'll have to see a fellow I know who works there. He may know some way to get me on the call list, seeing how I once worked there.

Having heard Seamless Rubber was working quite steady I went down there. Regular employment office furnished with one bench. Another chap, a foreigner, waiting also. In about 10 minutes a fellow asked us our business and told us very politely they had no jobs even for skilled men, let alone laborers. No use to tell him I wasn't always a laborer for I never had done the skilled jobs on rubber.

Saw a sign hanging out of one place in gilt letters, "No Help Wanted." In gilt, mind you, as if to make it more permanent.

Then to Bradley-Smith candymakers, where I had also worked before. The first few days I hadn't had the heart for more than a couple of tries a morning. I'm getting hardened to the word "No" now, though, and can stick it out most of the morning. Bradley-Smith has no employment office. The telephone switchboard operator is apparently instructed to switch off anyone looking for work, as she made quick work of my question. I notice no one seems to be instructed to find out if we know anything about the business or work. Firms might be passing up some good bets for their force. But apparently that isn't important now.

Walking away, met two friends out going the rounds, too. They said it was useless and that they were only looking through force of habit. That's going to be me before long. Even if they hadn't said so. I'm thinking it is useless to run around like this; you just appear ridiculous, and that gets your goat—or would if you kept it up too long. Wish I had some drag with someone on the inside of one of those gates. I expect it's that everyone knows they have to know someone that keeps me from having more company at the employment offices. This is what a former pal of mine who is up at Yale calls "competition in the labor market," I guess. Well, it's a funny competition and with guys you never see.

[From "The Atlantic Monthly," May 1932]

THE HUNGRY CITY

A MAYOR'S EXPERIENCE WITH UNEMPLOYMENT

(By Joseph L. Heffernan)

I

In December 1929, when I was mayor of Youngstown,[1] I attended a conference on unemployment at Cleveland, called at the request of President Hoover. It was held at the chamber of commerce, under the chairmanship of Mr. Elroy J. Kulas, president of the Otis Steel Co., and was attended by public officials of northern Ohio.

Speaker after speaker told what his community would do to end the depression, and how quickly it would be done. The unemployed were to be set marching gayly back to work without an instant's delay, and the two-car garage was to be made ready for further enlargement.

When it came my turn to speak, I said rather brutally: "This is all plain bunk. We know that our cities and counties are in debt and have bond limitations imposed by the State. If all of us were to start this minute drawing up a program of public improvements, it would require months to get the legislation through. Why not tell the people the truth?"

After the meeting many of the officials said to me: "Mayor, you are right. There isn't much we can do. But we have to go along, don't we?"

Five months later I went to Germany and visited a number of cities. Everywhere I saw that the German people were in a bad way. On returning home, I made a public statement that Germany was on the verge of economic collapse, and predicted that the depression would take 5 years to run its course. Thereupon I asked for a bond issue of $1 million for unemployment relief. Many leading businessmen went out of their way to show their disapproval. One of them voiced the opinion of the majority when he said to me: "You make a bad mistake in talking about the unemployed. Don't emphasize hard times and everything will be all right." An influential newspaper chastised me for "borrowing trouble," the depression would be over, the editor maintained, before relief would be needed.

Discussion dragged on for several months, and the gravity of the situation was so deliberately misrepresented by the entire business community that when the bond issue finally came to a ballot, in November 1930, it was voted down.

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[1] Mr. Heffernan was mayor for 4 years, from 1927 through 1931.—Editor.

Thus we passed into the early days of 1931—14 months after the first collapse—with no relief in sight except that which was provided by the orthodox charities. Not a single move had been made looking toward action by a united community.

Strange as it may seem, there was no way in which the city government could embark upon a program of its own. We had no funds available for emergency relief, and without specific authorization from the people we could not issue bonds. To get around that obstacle we urged the State legislature to amend the law so as to modify our bond limitation, but that body was reluctant to pass a relief bill. Finally, after a long delay, it agreed upon a halfway measure which permitted the cities to sell bonds for the limited purpose of providing for their indigents. It made no pretense of supplying new employment for the jobless, but it furthered this end to some degree by indirection. Up to this time all funds for poor relief had been appropriated from general receipts, such as taxes. The new bonds removed this strain upon taxes, so that the money which had formerly been set aside for this purpose was released for public works. A few of the unemployed were thus given part-time jobs improving the parks.

Inadequate as it was, this legislative relief was all that the great State of Ohio could bring itself to grant, and even this pittance was withheld until the crisis had already run through more than 18 devastating months.

I have cited these instances from my experience as mayor of an industrial city because they illustrate perfectly the state of mind which has been America's greatest handicap in dealing with the depression. Everyone will remember the assurances that were freely given out in November and December 1929 by the highest authorities in Government and business. The country, we were told, was "fundamentally sound." Nevertheless, general unemployment continued to increase through the winter. Then in the spring of 1930 it was predicted that we might expect an upward turn any minute. Yet the summer slid past with hope unfulfilled. Winter came again, and conditions had grown steadily worse; still nothing was done, because we were reluctant to face the truth. Our leaders, having made a bad guess in the beginning, have been unwilling to admit their error. With the foolish consistency which is the hobgoblin of little minds, they have persistently rejected reality and allowed our people to suffer by pretending that all would be well on the morrow.

II

In spite of the insurmountable handicaps under which the cities have labored in trying to cope with the emergency, desperate men and women out of work have stormed city halls from coast to coast demanding jobs. It have been a waste of breadth for mayors to explain that they have no authority to put men to work when municipal treasuries are empty. "Don't hand us that," is a response I have heard over and over again. "Do you mean to tell us that the city couldn't raise the money if it wanted to?" This, of course, has been the real tragedy of the situation: the cities could not raise the money.

One man I had known for years stood at my desk and calmly said: "My wife is frantic. After working at the steel mill for 25 years, I have lost my job, and I'm too old to get other work. If you can't do something for me, I'm going to kill myself." I knew he was desperate. Through friends I managed to find him a little job where he could earn enough to keep body and soul together.

In another instance a newspaperman urged me to find work for one of his neighbors, a man who had a wife and four sons—all rugged citizens who preferred to starve rather than accept public charity. "You could hardly believe what they live on," the reporter told me. "The mother mixes a litle flour and water, and cooks it in a frying pan. That is their regular meal." Eventually I found work for one of the sons, and he became the sole support of the others.

To my home came a sad-eyed woman, the mother of nine children. No one in the family had had work in more than a year. "How do you manage to live?" I asked her. "I can't tell you," she replied simply; "I really don't know." Christmas 1930 was marked by the usual campaign for the most needy cases, and this family was included in the list. They got their Christmas basket all right, but when the holidays were over they were no better off than they had been before.

As time went on, business conditions showed no improvement. Every night hundreds of homeless men crowded into the municipal incinerator, where they found warmth even though they had to sleep on heaps of garbage. In January 1931 I obtained the cooperation of the city council to convert an abandoned police station into a "flophouse." The first night it was filled, and it has remained filled ever since. I made a point of paying frequent visits to this establishment so that I could see for myself what kind of men these down and outers were, and I heartily wish that those folk who have made themselves comfortable by ignoring and denying the suffering of their less fortunate neighbors could see some of the sights I saw. There were old men gnarled by heavy labor, young mechanics tasting the first bitterness of defeat, clerks and white-collar workers learning the equality of misery, dereclicts who fared no worse in bad times than in good. Negroes who only a short time before had come from southern cottonfields, now glad to find any shelter from the cold, immigrants who had been lured to Van Dyke's "land of youth and freedom"—each one a personal tragedy, and all together an overwhelming catastrophe for the Nation.

With the guest list filled, we entrusted the operation of the new caravanserai to one of the organizations that had had long experience in such work. Soon, however, a group of Communists appeared and set up soviet rule, and the officer in charge threw up his hands in defeat. At this juncture I paid the place a visit to see what could be done. As I glanced over the men, my attention was arrested by a pair of steady blue eyes which looked at me with a level gaze. "What's your name?" I asked.

"Wilson, sir." I heard the heels click together.

"Army or Navy?"

"Marines, sir."

"What rank?"

"Sergeant, sir."

"Sergeant," I said, "the city has no funds to run this hotel. Unless it can manage to support itself, I'll have to turn you all out in the cold. Do you think you can run it and keep these Communists away?"

"If you put me in charge, sir, I'll run it."

"Good! Appoint your details."

"All right, you men," came the command, "line up in that other room. Outside, you fellows," to the Communists, "and remember, don't come back here unless you want me to mop up the floor with you."

Sergeant Wilson put the place under military discipline. The men were ordered out of their bunks at 6 o'clock every morning. Blankets were then rolled and cots stacked. (This equipment had been sent to us by the War Department.) All men not on detail were ordered to look for work about the city. A dispensary was set up, with doctors volunteering their services to attend to those who fell ill. A kitchen was established and details went forth each day under the escort of two policemen to solicit food. Trouble arose only once, when 50 Communists appeared on the scene and declared their intention to organize "the workers." Sergeant Wilson received the leader in true marine style, and the other 49 scattered without waiting to see how the battle would end.

Sergeant Wilson is still in command. He has disagreed with the city authorities on only one point. He wanted us to stop calling his establishment a flophouse, and asked permission to put a new sign over the door. The sign read, "Friendly Inn." Thousands of men who have wandered across the country looking for work will remember it.

With the Friendly Inn a going concern, the homeless men were provided for, but many families in Youngstown remained in desperate need. To take care of them I made a quiet investigaiton among the city employees, and learned that most of them were willing to contribute to a special relief fund. When this was announced, however, the executive secretary of the community chest stated curtly that such relief measures were quite unnecessary. I mention this espisode because, again, it illustrates the point of view crisis. Such pronouncements have been made so repeatedly in certain quarters that one might almost think there was a conspiracy abroad in the land to conceal the gravity of the problems which this depression has raised.

III

I have often been asked about my experience with Communists. The depression bred agitators just as naturally as prohibition bred bootleggers. In the summer of 1930 the Communists at Youngstown solicited recruits among the unemployed. They demanded that the city council and the mayor provide jobs and give money to all who needed it; they organized marches on the city hall, and finally staged a grand rally in the public square. Their activities thrust forward troublesome questions of free speech and free assembly—questions which may look simple enough to the ordinary citizen, but those in authority never know how far it is safe to let things take their own course. In other cities the Communists had already had clashes with the police, and I wanted to avoid similar disturbances if they could be prevented. Thinking that it would be better to let the agitators talk than to suppress them and make martyrs of them, I decided to permit the rally.

On the day of this demonstration the Communists descended on Youngstown from every city in the Northeast and Middle West. They carried the usual banners and placards: "Don't Starve—Fight," "Down With the Bosses," "Capitalism Must Go," "Read the Daily Worker," "To Hell With the Police." There were cheers for Soviet Russia and seditious speeches, but the police had orders not to interfere, and after 2 hours of violent harangues the orators exhausted themselves to no purpose. The meeting broke up in a march on city hall, and we called it a day.

For several months after this there were no other demonstrations. The winter of 1930–31 passed, but as the spring advanced we learned that the Communists had decided to make another effort to arouse the steel district. Youngstown, because of its great mills and the numbers of its unemployed, was to be the center of the battle. The campaign was to open on Memorial Day. The war veterans had already been given ther customary permit to parade on this day, and if the Communists were also to march I was afraid there would be a clash between them. This, I thought, ought to be avoided in the interest of public safety. Therefore, when the Communists applied for a permit to parade, I refused it. Whereupon they announced that they would march without a permit.

At this point the veterans began to take a special interest in the matter. They held meetings to consider what they would do if the Communists made trouble. For my part, I decided that everything would have to be left to the constituted authorities, so I announced that action from the outside could not be tolerated. The veterans acquiesced. Afterward, when it was all over, I talked with one of the commanders, who said to me, "If you had needed us, we were ready. But we did not want to add to your difficulties."

Meanwhile we set calmly about our preparations to handle the emergency. Youngstown had been through a disastrous riot in 1917, as well as the steel strike of 1920, so we understood all the dangers of a public uprising. We realized that the agitators had selected Memorial Day in order to emphasize their class struggle. Among our large foreign-born and colored population they thought they would have a fertile field for revolutionary doctrine, and they counted upon being able to work more effectively when these groups were conscious that they had no real part in the patriotic celebration.

The chief of police was a large, slow-moving, unexcitable man with a good-natured face and a soft voice, but his courage was beyond question. A detail of mounted traffic officers was placed under the direction of a captain who was experienced in managing crowds; he was a big, handsome Swede who wore his uniform as proudly as if he were Gustavus Adolphus with a triumphant army at his back. All available patrolmen and plainclothesmen were marshaled for special duty. Both the chief and the captain assured me that there was no cause for worry, that their men were cool and ready. But it was not a light responsibility to give the orders for this occasion which might see many men injured, some perhaps killed. It made me think back to my war days in France, for I experienced something of the same keyed-up feeling.

When Memorial Day dawned the Communists poured into town in hundreds of trucks and automobiles. They had established headquarters in vacant lots near the main street, and here they formed their columns with a screen of children in the front of the line. When the leaders gave the command to march, the mounted police captain swung his men across the formation, at the same time saying to the mob, "You people can't parade today, mayor's orders." He was answered by shouts: "Kill the police! Kill the police!" Stones and other missiles were hurled from the crowd, and the captain was struck with a paving brick and knocked from his horse. The bombardment continued to the accompaniment of curses, insults, and cries of defiance, with the marchers milling about and trying to get underway. Once more the police moved forward, the injured captain again in the lead.

Before the hostilities commenced, a slight, dark-complexioned man of middle age had stood prominently on a truck giving directions to the crowd. He was recognized as the leader in command. As the parade started off and the marchers were intercepted, he had been the first to yell, "Fight! Fight! Kill the police!" But the moment the fighting began he leaped from his truck and ran like a rabbit in the opposite direction. He was captured 6 blocks away.

In the meantime the conflict had become a hand-to-hand engagement. The police, instructed not to use their guns, were roughly handled, and several of them sustained injuries that sent them to the hospital. The battle was over within 15 minutes, but a number of Communists were also hurt and had to be carried off in ambulances. More than 200 of them were taken to jail. Later the leader, who at first denied his identity, was brought to trial and convicted, but the others were finally turned loose.

An examination of the Communists who were arrested made it evident that a farflung campaign had been planned. Printed instructions, maps, directions to places for eating and sleeping—everything showed that careful attention had been given to details of organization. Companies of Communists had come from Cincinnati, Toledo, Cleveland, Akron, Pittsburgh, Buffalo, Rochester, and other cities in Ohio, Pennsylvania, and West Virginia. The entire program, in fact, was clearly a movement of the national Communist Party, and was in no sense a demonstration growing out of unrest among our own people.

After this clash I announced that the Communists might hold a meeting at the public square whenever they chose to do so. It seemed the best policy to give them this opportunity in order to avoid the appearance of discriminating against them. They seized the occasion and made plans for a rally of national scope, with William Z. Foster as the main attraction. Some years before I had met Mr. Foster and was surprised at his erudition and quiet fortitude. I knew him to be a man of more capacity than his opponents liked to admit, but this Youngstown meeting passed off without any disturbance. The crowd was large but apathetic, and was evidently drawn together more by curiosity than by sympathy for communism.

IV

Throughout this period the distress of the people, which the Communists had sought to exploit, continued without abatement. The great industries had displaced thousands of men, and business conditions showed no signs of improving. Many of the unemployed who had had small reserves to fall back upon in the beginning had now exhausted their resources. One began to see destitute women walking the streets begging for food, and often small children trudged after them. In 1 week the chief of police reported to me that four women with nursing infants in their arms had sought shelter at police stations.

By the early summer of 1931, demands for relief had become so heavy that the charity organizations were overwhelmed. Federal and State officials now admitted that they had sadly underestimated the gravity of the situation. By this time the city had come into possession of money from the first bonds that had been sold under the special bill passed by the legislature. We had planned a relief program of our own to supplement that of the charities, with disbursements apportioned throughout the year. The head of the Community Chest pleaded with us, however, to take over immediately a number of his most urgent cases, and we could not refuse. Consequently we had to spend our money as rapidly as it came in, and the last half of the year was left to take care of itself, with the hope that other funds could be raised at that time.

How does a city administer relief measures? The money which we had available for this purpose was turned over to the park department. Every man who applied for help had to submit to an investigation by the department of health. If the inspectors reported that his case was desperate, he was given an order on the superintendent of parks for 2 days' work a week. It was obviously impossible to extend aid to any but the most hopeless cases. If a man owned a small home, if a young couple possessed furniture, if a woman had a good coat or her husband a presentable suit, these things had to be sacrificed first. Not until they had drained every other resource was official charity able to do anything for them.

Under these circumstances it is needless to point out that countless numbers of the most worthy citizens received no help at all. Indeed, Youngstown's experience in unemployment relief proves beyond question that the benefits of such measures are confined almost wholly to colored people and those of foreign birth. Men of education, unfortunates in the class of white-collar workers, mechanics, and mill employees who have held positions of consequence, are left out in the cold. They need help as badly as the others, but nothing has been done for them. Hosts of these newly poor, after exhausting every resource of credit and friendship, have sunk down to the lower levels, from which they may never rise again.

In the autumn of 1931 a final blow laid the city of Youngstown prostrate. The atmosphere was poisoned with a new fever of apprehension, with rumors that began no one knew where and ended in panic. "Have you heard?" everybody whispered excitedly. "The banks * * * buzz, buzz, buzz * * * the banks." People who were fortunate enough to have money deposited hurried to withdraw it.

Day after day the drain continued, and the bankers had to stand by helplessly while their reserves melted away. Then three of the banks closed their doors, and fear ran riot.

At once concerted efforts were made to protect the other banks. Depositors were besought not to withdraw their savings and were urged to bring back what they had carried away to hide. Statements calling upon the people to have confidence were issued to everyone of supposed influence. The ministers joined the campaign with sermons on civic faith and hope. But confidence was shattered. Had not everybody in authority, from the President down, been making optimistic statements for 2 years, and had not subsequent events disproved all predictions? Could anybody be trusted to tell the truth? Did anybody really know? People stood on the street corners asking each other anxious questions. Never before had all the old landmarks of security been so shattered. Never had Youngstown suffered such a shock to the spirit which had made it one of the great industrial centers of the world. Nobody could now deny that America was in the throes of a panic.

Another winter was approaching. The numbers of the unemployed had increased, and suffering had grown acute. Many heads of families had not earned a penny in 2 years. Landlords clamored for their rents and sought evictions. Communists protested loudly and threatened to use force to put back anyone who was dispossessed. Thousands of the city's water bills were unpaid, and officials were torn between their desire to be charitable, their fear of disease if the water were cut off, and the city's urgent need of money. Property owners could not pay their taxes, and delinquencies became appalling.

Such a large proportion of the taxes were uncollectable that the city and county governments had to face the certainty that unless something was done they would soon lack funds to operate. A wild clamor went up to reduce public expenditures. (A year before, the cry had been to keep men at work.) The budget for 1932 would have to be cut 40 percent. This meant that innumerable men who had been saved from starvation by doing part-time work would have to be turned away to join the ranks of the wholly unemployed. In consideration of this dilemma a special 1-mill tax levy for relief was finally voted at the November election, but it was apparent that the returns from this source would have to be substantially discounted because of tax delinquencies. As in Cleveland, we adopted the slogan, "Pay your taxes, so the hungry can be fed," and the words meant just what they said, for by this time the private charities were swamped, desperate, and bankrupt.

Such was the state of affairs in—Youngstown as we turned the corner of the new year, and it is common knowledge that many another once-thriving community now finds itself in the same predicament. What 1932 may do to alter these conditions no one can say, but perhaps we should take cold comfort in the thought that, no matter what turn events may take, they are bound to induce a change for the better, since it is hardly conceivable that the situation can grow much worse than it already is.

V

Often, as I have watched the line of jobseekers at the city hall, I have had occasion to marvel at the mysterious power that certain words and phrases exercise upon the human mind. A wise man once observed that words rule mankind, and so it is in America today. Prominent politicians and businessmen have repeatedly stated that, come what may, America must not have the dole. To be sure, we should all be much happier if we could get along without a dole, but the simple truth is that we have it already. Every city in the land has had a dole from the moment it began unemployment relief. The men who apply for help know that it is a dole. The officials who issue work orders can be in no doubt about it, for the work done in no way justifies the money spent, except on the basis of a dole.

Why, then, so much concern about the word? Perhaps because, if we were honest enought to recognize unemployment relief for the dole it really is, we should also have to be honest enough to admit that the depression is a catastrophe of historic proportions, and courageous enough to deal with it accordingly. One alternative to the dole would be to let all the unfortunates starve to death, but so far no one has advanced this proposal, although some have come pretty close to it in saying that the way out of the depression is to let nature take its course.

Those who have not been willing to go so far as that have maintained, however, that each community must look after its own unemployed, and that under no circumstances must the Federal Government assume any responsibility for them. For 2 years local communities have carried the burden unassisted, and many of them, like Youngstown, have prostrated themselves in doing it. We of the cities have done our best, laboring against conditions which were beyond our control. But, even if we are given full credit for trying, we must now admit that we have failed miserably. Whether this was caused by a lack of simple charity in the hearts of our people or by our incapacity to manage our financial problems is beside the point. The fact of our failure is patent. We of the cities have not advanced a single new idea on unemployment or its relief. We have not dared to consider the fundamental questions raised by our social and economic collapse. We are still as stupidly devoted as ever to the philosophy of laissez faire, and we face the future bewildered and purposeless. Our one great achievement in response to this national catastrophe has been to open soup kitchens and flophouses.

And nobody has taken the trouble to weigh the consequences of our well meant but ineffective charity upon the moral fiber of the American people. Seventy years ago we fought a civil war to free black slaves; today we remain indifferent while millions of our fellow citizens are reduced to the status of paupers. There is a world of difference between mere poverty and pauperism. The honest poor will struggle for years to keep themselves above the pauper class. With quiet desperation they will bear hunger and mental anguish until every resource is exhausted. Then comes the ultimate struggle when, with heartache and an overwhelming sense of disgrace, they have to make the shamefaced journey to the door of public charity. This is the last straw. Their self-respect is destroyed; they undergo an insidious metamorphosis, and sink down to spiritless despondency.

This descent from respectability, frequent enough in the best of times, has been hastened immeasurably by 2 years of business paralysis, and the people who have been affected in this manner must be numbered in millions. This is what we have accomplished with our breadlines and soup kitchens. I know, because I have seen thousands of these defeated, discouraged, hopeless men and women, cringing and fawning as they come to ask for public aid. It is a spectacle of national degeneration. That is the fundamental tragedy for America. If every mill and factory in the land should begin to hum with prosperity tomorrow morning, the destructive effect of our haphazard relief measures would not work itself out of the Nation's blood until the sons of our sons had expiated the sins of our neglect.

Even now there are signs of rebellion against a system so out of joint that it can only offer charity to honest men who want to work. Sometimes it takes the form of social agitation, but again it may show itself in a revolt that is absolute and final. Such an instance was reported in a Youngstown newspaper on the day I wrote these lines:

FATHER OF 10 DROWNS SELF

JUMPS FROM BRIDGE, STARTS TO SWIM, GIVES UP, OUT OF WORK 2 YEARS

Out of work 2 years, Charles Wayne, aged 57, father of 10 children, stood on the Spring Common Bridge this morning, watching hundreds of other persons moving by on their way to work. Then he took off his coat, folded it carefully, and jumped into the swirling Mahoning River. Wayne was born in Youngstown and was employed by the Republic Iron & Steel Co. for 27 years as hot millworker.

"We were about to lose our home," sobbed Mrs. Wayne. "And the gas and electric companies had threatened to shut off the service."

[From "The Great Crash," Houghton Mifflin Co., Publishers]

"WATCHMAN, WHAT OF THE NIGHT?"

Isaiah 21: 11

(By John Kenneth Galbraith)

The military historian when he has finished his chronicle is excused. He is not required to consider the chance for a renewal of war with the Indians, the Mexicans, or the Confederacy. Nor will anyone press him to say how such acrimony can be prevented. But economics is taken more seriously. The economic historian, as a result, is invariably asked whether the misfortunes he describes will afflict us again and how much they may be prevented.

The task of this book, as suggested on an early page, is only to tell what happened in 1929. It is not to tell whether or when the misfortunes of 1929 will recur. One of the pregnant lessons of that year will by now be plain: it is that very specific and personal misfortune awaits those who presume to believe that the future is revealed to them. Yet, without undue risk, it may be possible to gain from our view of this useful year some insights into the present and the future. We can distinguish, in particular, between misfortunes that could happen again and others which events, many of them in the aftermath of 1929, have at least made improbable. And we can perhaps see a little of the form and magnitude of the remaining peril.

II

At first glance the least probable of the misadventures of the late twenties would seem to be another wild boom in the stock market with its inevitable collapse. The memory of that autumn, although now much dimmed, is not yet gone. As those days of disenchantment drew to a close, tens of thousands of Americans shook their heads and muttered, "Never again." In every considerable community there are yet a few survivors, aged but still chastened, who are still muttering and still shaking their heads. The new era had no such guardians of sound pessimism.

Also, there are the new Government measures and controls. The powers of the Federal Reserve Board—now styled the Board of Governors, the Federal Reserve System—have been strengthened both in relation to the individual Reserve banks and the member banks. Mitchell's defiance of March 1929 is now unthinkable. What was then an act of arrogant but not abnormal individualism would now be regarded as idiotic. The New York Federal Reserve Bank retains a measure of moral authority and autonomy, but not enough to resist a strong Washington policy. Now also there is power to set margin requirements. If necessary, the speculator can be made to post the full price of the stock he buys. While this may not completely discourage him, it does mean that when the market falls there can be no outsurge of margin calls to force further sales and insure that the liquidation will go through continuing spasms. Finally, the Securities and Exchange Commission is an effective bar to large-scale market manipulation, and it also keeps rein on the devices and the salesmanship by which new speculators are recruited.

Yet, in some respects, the chances for a recurrence of a speculative orgy are rather good. No one can doubt that the American people remain susceptible to the speculative mood—to the conviction that enterprise can be attended by unlimited rewards in which they, individually, were meant to share. A rising market can still bring the reality of riches. This, in turn, could draw more and more people to participate. The government preventatives and controls are ready. In the hands of a determined government their efficacy cannot be doubted. There are, however, a hundred reasons why a government will determine not to use them. In our democracy an election is in the offing even on the day after an election. The avoidance of depression and the prevention of unemployment have become for the politician the most critical of all questions of public policy. Action to break up a boom must always be weighed against the chance that it will cause unemployment at a politically inopportune moment. Booms, it must be noted, are not stopped until after they have started. And after they have started the action will always look, as it did to the frightened men in the Federal Reserve Board in February 1929, like a decision in favor of immediate as against ultimate death. As we have seen, the immediate death not only has the disadvantage of being immediate but of identifying the executioner.

The market will not go on a speculative rampage without some rationalization. But during the next boom some newly rediscovered virtuosity of the free enterprise system will be cited. It will be pointed out that people are justified in paying the present prices—indeed, almost any price—to have an equity position in the system. Among the first to accept these rationalizations will be some of those responsible for invoking the controls. They will say firmly that controls are not needed. The newspapers, some of them, will agree and speak harshly of those who think action might be in order. They will be called men of little faith.

As this is written in the late autumn of 1954, the stock market has been rising rapidly. Some of the averages, including the Dow-Jones industrials, are above the level of September 3, 1929, although these averages are not useful for such long-range comparisons. In other respects the boom of 1954 is a pale imitation of 1929. Volume on the best days does not yet rise above 4 million. Brokers' loans are only a fraction of the 1929 peak. Yet for the person who loves history and yearns to see it repeated, there is encouragement. Stocks are high, it is said, because people have come to recognize the importance of having an equity position in American enterprise. On December 6, 1954, George W. Humphrey, the Secretary of the Treasury and the sixth to hold the office since the resignation of Andrew W. Mellon in 1932, was asked what the Government was doing about this incipient boom. He replied that to his knowledge there was nothing the Government "could appropriately do at this time." Other Washington spokesmen said the market was realistic.

III

A new adventure in stock market speculation sometime in the future followed by another collapse would not have the same effect on the economy as in 1929. Whether it would show the economy to be fundamentally sound or unsound is something, unfortunately, that will not be wholly evident until after the event. There can be no question, however, that many of the points of extreme weakness exposed in 1929 or soon thereafter have since been substantially strengthened. The distribution of income is no longer quite so lopsided. Between 1929 and 1948 the share of total personal income going to the 5 percent of the population with the highest income dropped from nearly a third to less than a fifth of the total. Between 1929 and 1950 the share of all family income which was received as wages, salaries, pensions, and unemployment compensation increased from approximately 61 percent to approximately 71 percent. This is the income of everyday people. Although dividends, interest, and rent, the income characteristically of the well-to-do increased in total amount, the share dropped from just over 22 to just over 12 percent of total family personal income.[1]

Similarly, in the years since 1929, the great investment trust promotions have been folded up and put away, or they have become cautious and respectable. Nothing of equal extravagance has yet appeared to take their place. The SEC, aided by the bankruptcy laws, has flattened out the great utility holding company pyramids. There has been a new age of mergers, but it does not seem yet to have produced any such Napoleonic bandits as Krueger or so far to have encouraged illusions of destiny in stock jobbers like Hopson or Insull. Federal insurance of bank deposits, even to this day, has not been given full credit for the revolution that it has worked in the Nation's banking structure. With this one piece of legislation the fear which operated so efficiently to transmit weakness was dissolved. As a result the grievous defect of the old system, by which failure begot failure, was cured. Rarely has so much been accomplished by a single law.

The problem of the foreign balance is superficially little changed from what it was 25 years ago. Now, as then, the United States finds itself with a propensity to sell more than it buys. And now, as then, the difference is being covered by the direct export of funds. However, the disequilibrium in the balance of payments now has the enormouse virtue of being chronic. The expedients with which we now fill the gaps are military aid, Export-Import and International Bank loans, economic aid, and point 4 assistance. In contrast with the loans to Latin American republics and the German municipalities, they are relatively invulnerable to shock. A crash in the stock market would affect them but little if at all.

Finally, there has been a modest accretion of economic knowledge. A developing depression would not now be met with a fixed determination to make it worse. Without question, no-business conferences would be assembled at the White House. We would see an explosion of reassurance and incantation. Many would urge waiting and hoping as the best policy. Not again, however, would people suppose that the best policy would be—as Secretary Mellon so infelicitously phrased it—to "liquidate labor, liquidate stocks, liquidate the farmers, liquidate real estate."[2] Our determination to deal firmly and adequately with a serious depression is still to be tested. But there is still a considerable difference between a failure to do enough that is right and a determination to do much that is wrong.

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[1] These data are from Goldsmith et al., "Size of Distribution of Income," pp. 16, 18.

Other weaknesses in the economy have been corrected. The much maligned farm program provides a measure of security for farm income and therewith for spending by farmers. Unemployment compensation accomplishes the same result, if still inadequately, for labor. The remainder of the social security system—pensions and public assistance—helps protect the income and consequently the expenditures of yet other segments of the population. The tax system is a far better servant of stability than it was in 1929. An angry god may have endowed capitalism with inherent contradictions. But at least as an afterthought he was kind enough to make social reform surprisingly consistent with improved operation of the system.

IV

Yet all this reinforcement notwithstanding, it would probably be unwise to expose the economy to the shock of another major speculative collapse. Some of the new reinforcements might buckle. Fissures might open at new and unexpected places. Even the quick withdrawal from the economy of the spending that comes from stock market gains might be damaging. Any collapse, even though the further consequences were small, would not be good for the public reputation of Wall Street.

Wall Street, in recent times, has become, as a learned phrase has it, very "public relations conscious." Since a speculative collapse can only follow a speculative boom, one might expect that Wall Street would lay a heavy hand on any resurgence of speculation. The Federal Reserve would be asked by bankers and brokers to lift margins to the limit; it would be warned to enforce the requirement sternly against those who might try to borrow on their own stocks and bonds in order to buy more of them. The public would be warned sharply and often of the risks inherent in buying stocks for the rise. Those who persisted, nonetheless, would have no one to blame but themselves. The position of the stock exchange, its members, the banks, and the financial community in general would be perfectly clear and as well protected in the event of a further collapse as sound public relations allow.

As noted, all this might logically be expected. It may not come to pass. This is not because the instinct for self-preservation in Wall Street is poorly developed. On the contrary, it is probably normal and may be above. But now, as throughout history, financial capacity and political perspicacity are inversely correlated. Longrun salvation by men of business has never been highly regarded if it means disturbance in the present. So inaction will be advocated in the present even though it means deep trouble in the future. Here, at least equally with communism, lies the threat to capitalism. It is what causes men who know that things are going quite wrong to say that things are fundamentally sound.

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[2] Quoted by Herbert Hoover, "Memoirs," p. 30.

PART II. DEPRESSION PROGRAMS AND PROPOSALS

[From the Congressional Digest, January 1931]

EFFORTS IN CONGRESS TO STABILIZE EMPLOYMENT

CHRONOLOGY—1907–29

1907

The genesis of the present U.S. Employment Services is contained in section 40 of the Immigration Act of February 20, 1907, which authorized a Division of Information in the Immigration Service of the Department of Labor, charged with the duty of promulgating a beneficial distribution of aliens, admitted to the United States, among the States desiring immigrants. This Division was continued until January 3, 1918. (See under that date below.)

1914

Because of an economic depression, the problem of unemployment in the United States began to attract widespread public attention. It was the subject of legislation or administrative action in several States which resulted in the establishment of temporary or permanent State agencies to aid unemployment.

In this year a number of bills were introduced in Congress to establish a Federal system of employment bureaus. After holding hearings the House Committee on Labor reported a bill for this purpose but it failed to receive action.

The U.S. Commission of Industrial Relations, a commission appointed by President Wilson to make a general survey of industrial conditions throughout the country, recommended the creation of a Bureau of Employment within the Department of Labor to cooperate with State employment bureaus.

Although no central Federal employment agency was set up, the Department of Labor, on its own initiative, obtained the cooperation of the Post Office Department and the Department of Agriculture and by augmenting the Information Division of the Immigration Service, established in 1907, practically set up a job-finding system on a national scale.

1917

The question of a Federal employment service again came up in connection with the war emergency. Congress appropriated $250,000 for use by the Department of Labor. This was supplemented by $2 million from the President's emergency fund. This money was used for the establishment of emergency employment offices under Federal direction all over the country, numbering at one time between 800 and 900.

In December President Wilson recommended to Congress authorization of public works on a large scale to prevent widespread unemployment. Congress did not act, but the War Department used existing public projects to find employment for demobilized soldiers.

1918

On January 3, administration of the U.S. Employment Service as a distinct and separate unit of the Department of Labor was inaugurated under an order promulgated January 3, 1918, by the Secretary of Labor. On that date complete instructions for the creation of an employment service as a distinct and separate unit were issued. Seven divisions were provided for: Women's, Information, Service Reserves, Farm Service, Investigation, Statistical, and Service Offices. The U.S. Employment Service has continued to function under an annual appropriation ever since.

1919

In April the Department of Labor, at the instance of President Wilson, called a conference at which the Governors of States and various Federal and State employment offices were represented. This conference urged the continuation of the Federal employment agency system as a permanent bureau of the Department of Labor. The Kenyon-Nolan bill were introduced in Congress to carry out these recommendations, and were given the endorsement of President Wilson in a message to Congress.

This bill was supported by the American Federation of Labor and various social welfare organizations. It was reported by the House Committee on Labor, but Congress took no action.

Along with nearly all war emergency appropriations, those for the Federal employment service were cut down to a minimum by Congress in 1919.

1920

A second industrial conference called by President Wilson recommended the planning of public works, and the creation of an employment clearinghouse under Federal control, to cooperate with State bureaus.

1921

In September a Conference on Unemployment was called by President Harding, and Herbert Hoover was named Chairman. The Conference recommended an adequate permanent system of employment offices and the expanding of public works during periods of depression. The recommendations of the Conference in regard to employment offices follows:

> 1. A permanent system of employment offices for bringing workers and jobs together with the quickest dispatch is necessary, both in times of depression and prosperity.
>
> 2. Your Committee finds that there are now 25 States which have established State employment systems, and public employment offices are now being operated in about 200 cities, of which about 17 are purely municipal enterprises. Most of the 200 offices are supported jointly by the State and municipality. Your Committee feels that in any permanent system the State should be the operating unit of such employment offices, and that the extension of such offices should be encouraged. The Federal Government itself should not operate local offices or do placement work.
>
> 3. However, for the purpose of bringing about coordination, the Federal Government should—
>
>   (*a*) Collect, compile, and make available statistical information.
>
>   (*b*) Collect and make available information which will facilitate interstate placements.

(c) Through educational measures improves standards of work and encourage the adoption of uniform systems.

4. The existing provision of the Federal Government and many State governments for all branches of such work is inadequate, and should be strengthened. The work is of first-rate importance, and should be recognized as a job for men of first-grade ability from the top down. The Director should be appointed directly by the President. Adequate salaries should be provided and adequate safeguards to secure the proper personnel and to protect the tenure of office.

5. An adequate permanent system of employment offices as above suggested would obviate the necessity of creating new offices whenever new emergencies arise. It would also prevent the public employment office from being regarded as a mere temporary philanthropic device, and thus through misunderstanding from not being used generally.

6. In order to secure and maintain the confidence of both employers and workers in the impartiality of the service rendered and the statistics published, an advisory committee consisting of representatives of employers and workers should be appointed to cooperate with the Director as well as a similar system of local advisory committees to cooperate with the State and municipal offices.

1927

Senator Pepper of Pennsylvania introduced a resolution in the Senate for the appointment of a Senate committee to study the stabilization of employment and industry through advance planning, but it was not adopted by the Senate.

1928

Senator Wesley L. Jones, of Washington, introduced a bill providing for a prosperity reserve fund, which involved placing in the hands of various Federal departments, particularly the War Department, funds for immediate use of public works, when an employment crisis should arise. Hearings were held but no further action was taken. Senator Jones reintroduced his bill on April 23, 1929, and it is now before the Senate Committee on Commerce.

On May 3, the Senate adopted Senate Resolution 219, introduced by Senator James Couzens, Republican, of Michigan, authorizing and directing the Senate Committee on Education and Labor to investigate the causes of unemployment.

The platform adopted by the Democratic National Convention contained a plank urging long-range planning of public works as an aid to unemployment. Gov. Alfred E. Smith, Democratic candidate for President, stressed this plank in several of his speeches.

Herbert Hoover, after his election as President, made an announcement to the annual conference of Governors that he favored the early adoption of a long-range plan on public works.

In December 1928, and in January and February 1929, the Senate Committee on Education and Labor held exhaustive hearings on unemployment.

1929

On February 25, the Senate Committee on Education and Labor made a comprehensive report, accompanied by a print of its hearings (S. Rept. 2072, 70th Cong.). The committee's summary of its recommendations follows:

(1) Private industry should recognize the responsibility it has to stabilize employment within the industry. The Government should encourage this effort in every way, through sponsoring national conferences, through publishing information concerning the experience

had by industries in this work, and through watching every opportunity to keep the thought of stability uppermost in the minds of employers.

(2) Insurance plans against unemployment should be confined to the industry itself as much as possible. There is no necessity and no place for Federal interference in such efforts at this time. If any public insurance scheme is considered, it should be left to the State legislatures to study that problem.

(3) The States and municipalities should be responsible for building efficient unemployment exchanges. The Government should be responsible for coordinating the work of the States so as to give a national understanding of any condition which may arise and so as to be able to assist in any national functioning of the unemployment exchanges.

(4) The existing U.S. Employment Service should be reorganized, and every employee should be placed under civil service.

(5) Efforts should be made to provide an efficient system for obtaining statistics of unemployment. The first step should be taken by the Bureau of the Census in 1930, when the Bureau should ascertain how many were unemployed as of a certain date and how many were not seeking employment and yet were unemployed as of that date.

(6) The Government should adopt legislation without delay which would provide a system of planning public works so that they would form a reserve against unemployment in times of depression. States and municipalities and other public agencies should do likewise.

(7) Further consideration might well be given to two questions: the effect had on unemployment by industrial developments, such as consolidation of capital; and the necessity and advisability of providing either through private industry, through the States, or through the Federal Government, a system of old-age pensions.

[From "The Survey," Apr. 1, 1929]

FROM 1921 FORWARD

(By Edward Eyre Hunt)

A telegram from Mr. Hoover took me to Washington late in August 1921, to undertake the secretaryship of the President's Conference on Unemployment of which he was Chairman. "If it is simply another relief activity, I am not much interested," I said. "The first problem is relief," was his answer, "but what we are really going to do is to tackle the fundamentals of unemployment."

How Mr. Hoover's mind attacks such a problem, I had learned the year before in the Survey of Waste in Industry, entered upon by the American Engineering Council under his Presidency. In our talks at the time, he explained that his own professional work had dealt very largely with what he described as the exhumation of the corpses of defunct mining companies, an examination of the maladies which accounted for their demise, and a listing of those maladies in the order of their importance. It was then his task to bring the corpse to life by treating the maladies; the larger ones first, the smaller last. The methods which were worked out by the Committee on the Elimination of Waste were: first, a reconnaissance rather than an exhaustive investigation, on the analogy of topographical and mining reconnaissances; second, a definite judgment as to the relative importance of the various industrial wastes; third, suggestions as to the most practical lines of attack. This procedure, running over 8 years while Mr. Hoover was Secretary of Commerce, has characterized his approach to the problem of human waste through unemployment.

The conference of 1921 was the first Federal recognition of the fact that unemployment is a national problem. It focused public opinion throughout the ensuing autumn, and its effect on the revival of business and on relief activities has been frequenly commented upon. Shortly after its close, Mr. Hoover developed its significance in these words:

> One of the causes of ill will that weighs heavily upon the community is the whole problem of unemployment. I know of nothing that more filled the mind of the recent conference, while dealing mainly with emergency matters, than the necessity to develop further remedy, first, for the vast calamities of unemployment in the cyclic periods of depression, and, second, some assurance to the individual of reasonable economic security—to remove the fear of total family disaster in loss of the job. * * * There is a solution somewhere and its working out will be the greatest blessing yet given to our economic system, both to the employer and the employee. There is also in this great question of unemployment the problems of seasonal and intermittent industry. Some of them are incurable, but some are not, and every one cured is a contribution to the solution of these matters.

The first of the resulting efforts "to tackle the fundamentals of unemployment" was the study of business cycles and unemployment, made by a committee of the conference under the chairmanship of Owen D. Young, assisted by a factfinding investigation conducted by the National Bureau of Economic Research, Inc. Dr. Wesley C. Mitchell, the authority on business cycles, directed this investigation. In the introduction to the report, Mr. Hoover stated:

> The whole problem belongs to a vast category of issues which we must as a nation confront in the elimination of waste if we are to maintain and increase our high standards of living. No waste is greater than unemployment, no suffering is keener or more fraught with despair than that due to inability to get jobs by those who wish to work * * *.

The next undertaking was an attempt by another committee of the conference to explore the possibilities of greater stability in the construction industries, sometimes called the balance wheel of American business, the workers in which, at the time the report was made, were fully occupied for only 3 to 5 months in a year. The committee's recommendations and factfinding report prepared under the direction of Dr. John M. Gries, had widespread influence. In Mr. Hoover's introduction to this report he said:

> In summary, the committee has well demonstrated the most important fact that the seasonal character of the construction industries is to a considerable extent a mater of custom and habit, not of climatic necessity. It gives recommendations of practical methods of solution through specified cooperative action of the trades and professions vitally interested in each locality—architects, engineers, bankers, contractors, building material dealers and producers, real estate men, and building trades labor. No solution is sought or suggested of Government regulation. The service of the committee has been to determine the facts and to point a remedy that is consonant with our national conceptions of individual and community initiative * * *.

In January 1928, another committee of the conference, this time headed by Chairman Hoover himself, was set up. For more than a year this Committee on Recent Economic Changes has been making an appraisal of the factors of stability and instability in our economic life with a view to further strengthening of the business structure and reduction of unemployment. The National Bureau of Economic Research was again called upon to plan the basic investigation, conduct the research and prepare the factfinding report covering an extraordinary range of topics.[1] The Committee has been studying with particular care the years from 1922 to 1929, and will point out the new factors which have emerged and the shifts in the importance of the older factors. Its report and findings will be made public in May.

President Hoover has gone into office with the results of this national survey in his hands and with an engineer's determination to make the facts effective.

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[1] Among them, consumption and the standard of living, the growth of new and old industries, the changing structure of industry, construction, transportation, marketing, labor, management, agriculture, price movements, money and credit, foreign markets and loans, the national income and its distribution, and the movement of the business cycle.

[From "The Survey" Apr. 1, 1929]

THE SENATE TAKES STOCK

(By James Couzens)

The time has got to come when each industry and each concern or corporation will have to assume responsibility for its workers. The time has to stop when men can be hired and fired at will without respect to their economic condition.

If you who read this had been sitting through the hearings of the Senate Committee on Education and Labor, you would have a better realization of the crime of intermittent employment. I say crime advisedly because I can conceive of no worse status.

Some months ago, at the dedicatory exercises in connection with the George F. Baker Foundation at the Harvard School of Business Administration, Owen D. Young, chairman of the General Electric Co., declared that "unemployment is the greatest economic blot on our capitalistic system." It was a realization of this "blot" that undoubtedly inspired the Senate to adopt a resolution last May instructing its Committee on Education and Labor to inquire into the subject. In our investigations, we had the cooperation of the Institute of Economics of the Brookings Institution of Washington, and the findings of the Industrial Relations Counselors were put at our disposal. When Congress convened in December, the committee proceeded to hold hearings, and our report was submitted on March 1. These hearings brought home that the problem of maintaining steady work for our citizens is a very live issue and will continue so to be until it has been solved. In view of President Hoover's activity from 1921 on, we may expect unusual interest on the part of our new administration in steps that can be taken to solve the problem.

In our report, the Senate committee voices the opinion that it can be solved only through constant struggle on the part of all members of society. When the committee uses the word "solved" it means that the chance will be open to every one who really desires work. No one will question that every man is entitled to the opportunity to provide for himself and his family. That is a fundamental right and no society can consider itself successfully organized until every man is assured of the opportunity to preserve himself and his family from suffering and want.

And it may as well be remembered that society is going to provide an opportunity for man to sustain himself, or is going to have to sustain man. Society is going to provide an opportunity for man to pay his own way or is going to pay for him. Society may as well make every effort to do the job constructively, because no society can be strong in which its members are encouraged or forced to adopt the position and the place of those seeking charity. When society pays the bill through charity, or through the cost of crime, the payments offer little possibility of any advance for mankind.

The problem should be, and in my opinion will be, solved best by industry itself. There is no panacea for curing this great "blot" on our economic system. The most effective thing that can be done at this time is to arouse the conscience of the employing group. This was well said by Daniel Willard, president of the Baltimore & Ohio Railroad, when he appeared before the committee. He put the whole situation pithily. In the first place, he described the old days of intensive individualism where goods were produced largely in individual shops and by hand labor. Now we have tremendous factories, mass production, wealth pouring from machines and moving on for the benefit of society. If society is going to take the benefits, then society must also accept the burdens, Mr. Willard contended. A man out of work, discontended and suffering, constitutes a danger to society. As he put it, a man is going to steal before he starves, and the word "steal" may cover a multitude of other crimes—crimes perhaps on the part of the man who steals—but crimes of far greater magnitude on the part of that society which permits conditions which induce or invite men to steal. Mr. Willard said:

> It seems to me that those who manage our large industries, whatever the character of their output may be, whether it be shoes, steel, or transportation, should recognize the importance and even the necessity of planning their work so as to furnish as steady employment as possible to those in their service. Not only should that course, in my opinion, be followed because it is an obligation connected with our economic system, but I fully believe that such a course is justifiable from the standpoint of the employer because it tends to develop a satisfied and contented body of workmen which of itself would improve efficiency and reduce costs.

Other witnesses, who are employers of men and women, said substantially the same thing—that it is largely a matter of awakening the consciences of those who have the power to assist in solving the problem. This is not to say that employers are to be wholly condemned for the present situation because until their consciences are awakened it is difficult to blame anyone for not acting. To act in a case like this is enlightened selfishness, just as we have seen it proved during the last decade that it is enlightened selfishness to pay adequate compensation to the workers. Nothing, in my opinion, has sustained our prosperity more than the maintenance of adequate incomes to the great masses of our population. Every employer has not seen this or acted on it but such numbers have done so as to constitute a large factor in the prosperous condition of the Nation.

Enlightened selfishness will solve the unemployment problem. It has been generally assumed that only the unemployed suffer as a result of the irregularity of employment. We are becoming more familiar each day with the fact that when large numbers of our people are unemployed it reacts all the way down the line. True, those with adequate incomes do not feel the same physical discomforts that the unemployed do. To help awaken their consciences was largely the hope of the Senate committee. When we can make them understand that they not only owe an obligation to society but that they themselves indirectly are penalized for failure to do so, we will have accomplished much.

Our Senate committee summed up its suggestions and recommendations under six heads:

1. Private industry should recognize its responsibility to stabilize employment within the industry. The Government should encourage this effort in every way. Stabilization has been sought and obtained in various ways. One employer who came before us had placed practically all his workers on a salary basis, has assured them of continuous wages through the year, and has placed upon them the responsibility for making the industry succeed. Others have established reserve funds, and have so arranged them that executives and workers strive to prevent them from being drained. Others have so ordered their production that it is spread throughout the year. Still others have set about the production of articles which are related to their general businesses but which can be produced in periods which formerly were marked by idleness in their plants. Undoubtedly there are too few industrial leaders interested as yet, but there is reason to believe their number will increase, and that simply because of economic pressure. The employer who does not stabilize his employment, and thus retain experienced workmen, is the employer who is going to fail.

2. Insurance plans against unemployment should be confined to the industry itself as much as possible at this time. The States can deal with this phase of the subject much better than can the Federal Government. But in any discussion of legislation, consideration should be given to the plan of reserve funds or insurance confined to one company or industry rather than to industry in general. Private employers should adopt systems of unemployment insurance and should be permitted and encouraged to adopt the system which is best suited to the particular industry. Dr. John R. Commons, of the University of Wisconsin, stressed the fact that unemployment insurance as practiced in the Chicago clothing market follows the experiences gained from workmen's compensation systems in various States. Employers were moved to adopt every precaution against accidents when under these systems they came to realize that accidents were costly. In the same way, employers and employees will be more likely to fight the causes of unemployment within their industries when they see tangible evidence of the cost of unemployment.

Just as the efficient businessman is stabilizing the return for capital invested, by building up reserves for dividends, so should he establish a reserve for return to labor in the hours of adversity. And why? The testimony from witness after witness stressed the point that there is no suggestion of charity in this effort, no idea of being philanthropic, no desire to have the industry become paternalistic. True, in most cases where the plans were started because an industrial leader became conscious of some of his obligations to society. But there is general accord on the proposition that the plan is "good business"; that it has increased profits. One witness asked, "Shall the businessman who expands his business without consideration for future requirements escape his responsibility?" Morris E. Leeds, of Leeds and Northrup, Philadelphia, testified: "I was convinced a good many years ago of the element of unfairness and social wrong that modern industry had gotten into by freely hiring people and, with equal freedom, firing them."

3. The States and municipalities should be responsible for building up efficient unemployment exchanges. The Federal Government should be responsible for coordinating the work of the States so as to bring national understanding to any condition which may arise and so as to be able to assist the exchanges to function on a countrywide scale. Today, the number of State exchanges is so small that they do not even offer the skeleton of a national system. Thirteen States have no employment offices whatsoever.

4. The existing U.S. Employment Service should be reorganized, and every employee should be placed under civil service. The service should become an organization of experts coordinating the work of the States.

5. Efforts should be made to set up an efficient system for obtaining statistics on unemployment. The first step should be taken by the Bureau of the Census in 1930, when the Bureau should ascertain not only how many are unemployed as of a certain date but how many of these are seeking employment. If we do not have accurate information, we may rest assured we are going to have plenty of inaccurate information. The subject is one which is very articulate in inself. And in this connection it might be well to reflect on the truth that the facts will permit sound thinking and that an absence of facts will produce a condition of fear and panic which may be far more costly to the country than would be the cost of maintaining a system for measuring unemployment.

6. Congress should adopt legislation without delay which would provide a practical scheme for the planning of public works so that these shall form a reserve against unemployment in times of business depression. The evidence is very clear that the Federal Government may set a valuable example to States and municipalities which will have the greatest opportunity to provide this buffer because their expenditures transcend those of the Federal Government. There should be no delay upon the part of the various governments—Federal, State, city, and county—in adopting such plans.

Our committee felt that consideration might well be given to two further questions: The effect had on unemployment by industrial developments, such as consolidations of capital; and the necessity and advisability of providing either through private industry, through the States, or through the Federal Government, for a system of old-age pensions. The man of mature years is not so successful, when competing with a machine, as a younger man.

Some of the experienced witnesses who appeared before our comittee stated that new industries absorb the labor turned adrift by machine development. The automobile, the airplane, the radio, and related industries were suggested as examples. Undoubtedly there is much truth in these statements, but nevertheless we are not relieved of the individual problem. It offers little to the skilled musician to say that he, who has devoted his life to his art, may find a job in a factory where radio equipment is manufactured. Then there is the delay, that inevitable period of idleness when readjustments are being effected, the suffering, the loss, the enforced change in environment. True, this may all be "the price of progress," but society has an obligation to see that all this "price" does not become the burden of the worker.

STATEMENT BY PRESIDENT HERBERT HOOVER, MARCH 7, 1930

The Departments of Commerce and Labor are engaged in the usual monthly survey of business and unemployment, and especially of the results obtained from the measures which have been in progress since the last of November to reduce unemployment and the hardship following the dislocation from the stock exchange crash. The survey is not as yet complete.

There are, however, certain conclusions that are evident:

1. Unemployment amounting to distress is, in the main, concentrated in 12 States. The authorities in the remaining 36 States indicate only normal seasonal unemployment, or that the minor abnormal unemployment is being rapidly absorbed.

2. The low point of business and employment was the latter part of December and early January. Since that time employment has been slowly increasing, and the situation is much better today than at that time.

3. Nationwide response to the request for increased construction and improvement work by public authorities, railroads, utilities, and industries is having a most material effect. Construction contracts in these categories in January and February were from 40 to 45 percent higher than ever known in these months. The total construction work for 1930 seems assured to be larger than even 1929.

4. The undertakings to maintain wages have been held.

5. The amount of unemployment is, in proportion to the number of workers, considerably less than one-half (probably only one-third) of that which resulted from the crashes of 1907–08 and 1920–22, at this period of the situation.

6. Measures taken to ameliorate interest rates have resulted in continuous decrease since December, and money is available at lower rates for business and commercial purposes. One result is an increasing volume of bond issues have been placed for public improvements. Available money for mortgage purposes of homebuilding and agriculture has lagged behind other forms of credit. But a decrease in demands of policyholders for loans on the insurance companies and the action recently taken by the Federal Reserve System should result increased supplies for credit, especially for residential building, which in turn has lagged behind other construction.

7. All the evidences indicate that the worst effects of the crash upon unemployment will have been passed during the next 60 days, with the amelioration of seasonal unemployment, the gaining strength of other forces, and the continued cooperation of the many agencies actively cooperating with the Government to restore business and to relieve distress.

[From the Congressional Digest, January 1931]

EMERGENCY AID FOR EMPLOYMENT

PRESIDENT HOOVER'S PROGRAM

When Congress convened in December, President Hoover, in his annual message, took occasion to review the steps taken by the Executive during 1930 to meet the immediate problem of unemployment in the Nation. This statement not only includes his general program of action for emergency relief, but contains observations on unemployment prevention. The President said:

Economic depression cannot be cured by legislative action or Executive pronouncement. Economic wounds must be healed by the action of the cells of the economic body—the producers and consumers themselves. Recovery can be expedited and its effects mitigated by cooperative action. That cooperation requires that every individual should sustain faith and courage; that each should maintain his self-reliance; that each and every one should search for method of improving his business or service; that the vast majority whose income is unimpaired should not hoard out of fear but should pursue their normal living and recreations; that each should seek to assist his neighbors who may be less fortunate; that each industry should assist its own employees; that each community and each State should assume its full responsibilities for organization of employment and relief of distress with that sturdiness and independence which built a great nation.

Our people are responding to these impulses in remarkable degree.

The best contribution of government lies in encouragement of this voluntary cooperation in the community. The government—National, State, and local—can join with the community in such programs and do its part. A year ago I, together with other officers of the Government, initiated extensive cooperative measures throughout the country.

The first of these measures was an agreement of leading employers to maintain the standards of wages and of labor leaders to use their influence against strife. In a large sense these undertakings have been adhered to and we have not witnessed the usual reductions of wages which have always heretofore marked depressions. The index of union wage scales shows them to be today fully up to the level of any of the previous 3 years. In consequence, the buying power of the country has been much larger than would otherwise have been the case. Of equal importance, the Nation has had unusual peace in industry and freedom from the public disorder which has characterized previous depressions.

The second direction of cooperation has been that our governments, National, State, and local, the industries and business, so distribute employment as to give work to the maximum number of employees.

The third direction of cooperation has been to maintain and even extend construction work and betterments in anticipation of the future. It has been the universal experience in previous depressions that public works and private construction have fallen off rapidly with the general tide of depression. On this occasion, however, the increased authorization and generous appropriations by the Congress and the action of States and municipalities have resulted in the expansion of public construction to an amount even above that in the most prosperous years. In addition the cooperation of public utilities, railways, and other large organizations has been generously given in construction and betterment work in anticipation of future need. The Department of Commerce advises me that as a result, the volume of this type of construction work, which amounted to roughly $6,300 million in 1929, instead of decreasing will show a total of about $7,000 million for 1930. There has, of course, been a substantial decrease in the types of construction which could not be undertaken in advance of need.

The fourth direction of cooperation was the organization in such States and municipalities, as was deemed necessary, of committees to organize local employment to provide for employment agencies, and to effect relief of distress.

The result of magnificent cooperation throughout the country has been that actual suffering has been kept to a minimum during the past 12 months, and our unemployment has been far less in proportion than in other large industrial countries. Some time ago it became evident that unemployment would continue over the winter and would necessarily be added to from seasonal causes and that the savings of workpeople would be more largely depleted. We have as a nation a definite duty to see that not deserving person in our country suffers from hunger or cold. I, therefore, set up a more extensive organization to stimulate more intensive cooperation throughout the country. There has been a most gratifying degree of response from Governors, mayors, and other public officials, from welfare organizations, and from employers in concerns both large and small. The local communities through their voluntary agencies have assumed the duty of relieving individual distress and are being generously supported by the public.

The number of those wholly out of employment seeking for work was accurately determined by the census last April as about 2,500,000. The Department of Labor index of employment in the larger trades shows some decrease in employment since that time. The problem from a relief point of view is somewhat less than the published estimates of the number of unemployed would indicate. The intensive community and individual efforts in providing special employment outside the listed industries are not reflected in the statistical indexes and tend to reduce such published figures. Moreover, there is estimated to be a constant figure at all times of nearly 1 million unemployed who are not without annual income but temporarily idle in the shift from one job to another. We have an average of about three breadwinners to each two families, so that every person unemployed does not represent a family without income. The view that the relief problems are less than the gross numbers would indicate is confirmed by the experience of several cities, which shows that the number of families in distress represents from 10 to 20 percent of the number of calculated unemployed. This is not said to minimize the very real problem which exists but to weigh its actual proportions.

As a contribution to the situation the Federal Government is engaged upon the greatest program of waterway, harbor, flood control, public building, highway, and airway improvement in all our history. This, together with loans to merchant shipbuilders, improvement of the Navy and in military aviation, and other construction work of the Government will exceed $520 million for this fiscal year. This compares with $253 million in the fiscal year 1928. The construction works already authorized and the continuation of policies in Government aid will require a continual expenditure upward of a half a billion dollars annually.

I favor still further temporary expansion of these activities in aid to unemployment during this winter. The Congress will, however, have presented to it numbers of projects, some of them under the guise of, rather than the reality of, their usefulness in the increase of employment during the depression. There are certain commonsense limitations upon any expansions of construction work. The Government must not undertake works that are not of sound economic purpose and that have not been subject to searching technical investigation, and which have not been given adequate consideration by the Congress. The volume of construction work in the Government is already at the maximum limit warranted by financial prudence as a continuing policy. To increase taxation for purposes of construction work defeats its own purpose, as such taxes directly diminish employment in private industry. Again any kind of construction requires, after its authorization, a considerable time before labor can be employed in which to make engineering, achitectural, and legal preparations. Our immediate problem is the increase of employment for the next 6 months, and new plans which do not produce such immediate result or which extend commitments beyond this period are not warranted.

The enlarged rivers and harbors, public building, and highway plans authorized by the Congress last session, however, offer an opportunity for assistance by the temporary acceleration of construction of these programs even faster than originally planned, especially if the technical requirements of the laws which entail great delays could be amended in such fashion as to speed up acquirements of land and the letting of contracts.

> With view, however, to the possible need for acceleration, we, immediately upon receiving those authorities from the Congress 5 months ago, began the necessary technical work in preparation for such possible eventuality. I have canvassed the departments of the Government as to the maximum amount that can be properly added to our present expenditure to accelerate all construction during the next 6 months, and I feel warranted in asking the Congress for an appropriation of from $100 million to $150 million to provide such further employment in this emergency. In connection therewith we need some authority to make enlarged temporary advances of Federal-highway aid to the States.
>
> I recommend that this appropriation be made distributable to the different departments upon recommendation of a committee of the Cabinet and approval by the President. Its application to works already authorized by the Congress assures its use in directions of economic importance and to public welfare. Such action will imply an expenditure upon construction of all kinds of over $650 million during the next 12 months.

The President's Emergency Committee for Employment

On October 17, 1930, President Hoover announced he had asked the Secretaries of the Treasury, War, Navy, Agriculture, Commerce, and Labor and the Governor of the Federal Reserve Board to formulate and submit to him plans for "continuing and strengthening the organization of Federal activities for employment during the winter of 1930–31."

In a press statement containing this announcement, the President said:

> There are three directions of organization in which the Federal Government activities can cooperate. First, cooperation with the Governors and employment organizations of the States and local communities; second, development of methods with the national industries; and, third, in direct Federal employment in public works, etc.
>
> It will be remembered that 10 months ago we set up such arrangements which have continued since that time, and which have contributed greatly to reduce unemployment. At that time the Governors of many of the States established strong committees for action in relief and most of these organizations have shown a high record of real accomplishment. The present conditions of organization vary greatly in different States. In the great majority of industrial States the Governors have on their own initiative taken steps to reorganize or develop or further strengthen their organizations for the forthcoming winter. During the past few weeks I have been in communication with some of the Governors in development of methods by which the Federal Government can further supplement assistance to their organizations. The Cabinet Committee will further discuss these conditions with Governors and State agencies and we will again seek the cooperation of our business leaders and our national industries which we have had on so generous a scale during the past year. We shall also review the Federal situation of public works and the situation in construction among the national industries together with other methods by which we can continue to be of assistance. There are no two States or municipalities where the problem is the same or where the methods for assistance are identical. With the survey of the methods in progress for the past 10 months we should have valuable suggestive material and information for the winter.
>
> The initiative of the various Governors and local authorities in preparation for the winter is well indicated by the action of the Governor of Illinois who recently organized a State committee: reorganized efforts with the mayor of Detroit; the committees created in New York; the extraordinarily effective organization in the State of Ohio, and at many other points throughout the country—all of them indicating a strong feeling of local responsibility and determination to meet the situation.
>
> As a nation we must prevent hunger and cold to those of our people who are in honest difficulties.

The official name of this committee is the President's Emergency Committee for Employment. On October 22, Col. Arthur Woods of New York was appointed Chairman of the Committee by President Hoover. Colonel Woods came to Washington at once and assumed active charge of the work. A firsthand account of the work of the Committee and how it has progressed was written for the Congressional Digest by Colonel Woods and appears on page 5 of this issue.

Appropriations Requested for Emergency Construction Work

On December 4, the President transmitted to Congress a supplemental estimate from the Director of the Budget of appropriations for the remainder of the fiscal year ending June 30, 1931, for emergency construction work, on projects already authorized by law for the purpose of increasing employment. Extracts from the report of the Director of the Budget to the President follow:

SIR: By your direction, I have the honor to submit herewith a supplemental estimate of appropriation for the fiscal year 1931 for the purpose of accelerating during the remainder of the current fiscal year such work on authorized governmental construction projects as will increase employment during the present emergency, as follows:

Emergency construction fund ---------------------------------- $150,000,000

In response to your request I have canvassed the departments with a view to ascertaining how much money could be spent during the next 6 months with a view to aiding the unemployment situation if additional funds could be provided.

This canvas has been conducted with the limitations which you indicated kept clearly in mind; namely, (1) items which would require additional congressional authorization have been eliminated, (2) items which do not afford direct benefit to the employment situation within the next 6 months have been eliminated, (3) only such items have been included as are believed to be justified on their merits and for which money would be provided within the next few years as Government finances would permit, and (4) while some of these projects cannot be fully completed within the next 6 months and will necessarily involve some additional future expenditure to complete them, the emphasis has been laid in every case upon the relief which would be afforded to the unemployment situation during the next 6 months and projects which would involve materially larger expenditures in the future to complete them have been eliminated, except in those cases where the commencement of the project is contemplated in the 1932 estimates now before Congress.

This supplemental estimate of appropriation is required to meet an emergency which has arisen since the transmission of the budget for the fiscal year 1931.

The President Takes Issue With Congress

A number of bills were introduced in Congress at the opening of the session for considerably larger amounts than were recommended by the President, and on December 9, the President issued the following statement:

I observe that measures have already been introduced in Congress and are having advocacy, which, if passed, would impose an increased expenditure beyond the sum which I have recommended for the present and the next fiscal year by a total of nearly $4,500 million, and mostly under the guise of giving relief of some kind or another. The gross sums which I have recommended to carry on the essential functions of the Government include the extreme sums which can be applied by the Federal Government in the actual unemployment relief and are the maximum which can be financed without increase in taxes.

No matter how devised an increase in taxes in the end falls upon the workers and farmers or alternatively deprives industry of that much ability to give employment and defeats the very purpose of these schemes. For the Government to finance by bond issues deprives industry and agriculture of just that much capital for its own use and for employment. Prosperity cannot be restored by raids upon the Public Treasury.

> The leaders of both parties, the President pointed out, are cooperating to prevent any such event. Some of these schemes are ill considered. Some represent enthusiasts and some represent the desire of individuals to show that they are more generous than the administration or that they are more generous than even the leaders of their own parties. They are playing politics at the expense of human misery.
>
> Many of these measures are being promoted by organizations and agencies outside of Congress and are being pushed upon Members of Congress. Some of them are mistaken as to the result they will accomplish and they are all mistaken as to the ability of the Federal Government to undertake such burdens. Some of these outside agencies are also engaged in promoting political purposes. The American people will not be misled by such tactics.

Part of the President's criticism was leveled at the various drought relief measures but it also referred to some of the bills for appropriations for employment greatly in excess of the amounts the President recommended.

Congress Acts Swiftly on Emergency Measures

On December 9, the House Committee on Appropriations reported a bill (H.R. 14804) prepared by the committee, appropriating $110 million for construction projects. In his report, Will R. Wood, of Indiana, chairman of the committee, stated that the appropriation of the remaining $40 million to make up the $150 million recommended by the President, would be included in the first deficiency appropriation bill. The bill, as reported, was immediately passed by the House on December 9. On December 10, the bill was promptly considered by the Senate Committee on Appropriations, and reported.

On December 11, the Senate passed the bill with amendments, adding $6 million in appropriations.

On December 12, the House voted to disagree to the Senate amendments and asked for a conference.

On December 15, the bill was sent to conference.

On December 16, the conferees reported the bill.

On December 20, both Houses adopted the conference report and it was immediately signed by the President. The bill makes available for public works $116 million of the $150 million recommended by the President.

Various Senate amendments were stricken from the bill in conference and the President was given the power, as provided in the original House bill, to transfer funds from one department to the other if necessary or advisable to meet immediate needs.

On December 9 the House Committee on the Judiciary reported H.R. 14255, providing for the taking possession by the Government of sites for public buildings in advance of final judgment in judicial proceedings.

On December 15 this bill was passed by the House. It was before the Senate when Congress recessed for the holidays.

On December 11, the House Committee on Public Buildings and Grounds reported H.R. 14040 to give authority to the Secretary of the Treasury to employ outside architects and other assistants for the Office of the Supervising Architect and to let contracts without competitive bidding and to otherwise expedite work on public buildings. The bill is on the House Calendar.

[From the Nation, Dec. 10, 1930]

AN UNEMPLOYMENT PROGRAM

EDITORIAL

What shall we do about unemployment? The question reechoes today through almost every country on earth except Russia, which, in the midst of an incredibly swift industrialization under a unified plan of operation, suffers a shortage of manpower. Here in the United States we have refused to face the question, but we can refuse no longer.

As a result of our shameful neglect, our first thought must be simply relief of immediate suffering. That means improvised jobs and, despite all pious phrases, charity. By this time we have committees enough to coordinate this, and cooperate in that, and in general to urge somebody else to do something. Now let everyone who can give generously, and let our private relief organizations administer the funds carefully and generously. The States and cities, too, must give—direct appropriations for unemployment relief where necessary, in close cooperation with existing agencies, in order to reduce the inevitable waste and graft to a minimum. The mayor of New York calls for $2 million a month to take care of 40,000 out of the 46,000 unemployed families shown by the police census. It represents but a fraction of the known need. The Emergency Committee for Public Works is demanding a Federal bond issue of $1 billion for public works essentially as a relief measure. Let the armories be open, with proper sleeping facilities, for homeless men. Let us do the work of "relief" thoroughly, as penance for our social sins, and then let us turn our thoughts to measures of prevention for the future.

First, we must organize the labor market. We need a national system of public labor exchanges. Many cities and States have organized exchanges, but city and State action cannot meet the problem, however helpful such action may be locally. We urge that the States immediately indicate their purpose to take advantage of the Federal subsidy to State exchanges proposed in the Wagner bill, if and when enacted, with the understanding that uniform procedures will be developed with a view of incorporation in a genuinely national system. Congress ought without delay to pass the Wagner bill, unemasculated by the House amendments, and to make generous appropriations for the statistical and placement activities of the National Employment Service cooperating with those of the States. With a real national system of exchanges set up and functioning effectively, we can with some hope of success again raise the question of abolishing private agencies, and clearing all labor through a unified, free public system.

Thus we should move straight forward to unemployment insurance. Voluntary private plans will never cover more than a fraction of the workers, and we must not be diverted from the real task by any idea that they will meet the need. The United States ought to utilize the rich European experience, and side by side with labor exchanges develop compulsory public insurance plans on an actuarial basis, with employers, employees, and the Government contributing, perhaps equally, and with benefits held strictly within actual insurance limits. If extraordinary employment at any time makes it necessary to go beyond those limits, let the State meet the whole cost and not ask the insurance system to carry an impossible load. Under our conditions, we believe that such action would rarely be necessary. If anyone criticizes this extension as a "dole" let him suggest something better, or else admit his preference for charity.

In the present constitutional position, how can the Federal Government do its duty in respect to insurance? It can certainly, on the subsidy principle, offer to match State funds for insurance, dollar for dollar, again with a view to a national system in which State systems would ultimately be merged. The money for that purpose ought to come, in first instance, from higher income surtaxes and estate taxes. The 15,780 persons who in 1928 had incomes above $100,000 received in all $4,903 million and paid income and surtaxes of $700 million, or a little more than 14 percent. To raise this figure to 25 percent (an extremely moderate rate) would make a half-billion dollars annually available to subsidize State insurance systems, and would be a trifling move in the direction of reducing that inequality of distribution which now imperils our economic and social system. We could thus take the first step toward a national insurance scheme.

Organization of the labor market and unemployment insurance by themselves will not solve the problem of unemployment, as the experience of Great Britain and Germany since the war indicates. In fact, insurance may be so handled as to increase the number of men out of work. The great preventive of unemployment is the stabilization of industry, and both publicly and privately we must use every possible means to that end. Our most powerful single agency, the Federal Reserve System, prostituted under the present and the preceding administration to purposes of stock gambling and political advantage, must in future be used primarily for stability. There are possibilities, exaggerated in recent discussions, in the long-time planning of public works. Let both Federal and State Governments now draw up carefully studied plans of needed public improvements, extending over, say, 10 years or more; let them secure the necessary bond authorizations; and then let the less pressing items be held back against the next period of hard times. Something can be done thus. The major task, however—that of keeping fundamental industries running on an even keel—requires planning and action on a nationwide and a worldwide scale. The conquest of unemployment requires not only a national economic council to organize a planned national economy, but an international economic conference to work out the methods of international organization and control essential to a stable world industrial order. Today certain shortsighted cap-

tains of industry and finance and their political satellites all over the world bedevil all efforts at national and international organization that threaten to interfere in any way with their pursuit of profits. They may be well assured that the success of their endeavors will spell disaster; for unless the industrial leaders and the political rulers of the Western World can find a way to stabilize industry and get rid of the miseries of unemployment, the men who work and suffer will some day overturn their rule. If we do not want communism, let us abolish unemployment.

[From "The Crisis of the Old Order," Houghton Mifflin Co., publishers]

RESPONSIBILITY IN ALBANY

(By Arthur M. Schlesinger, Jr.)

VI

If the Walker case overshadowed F.D.R.'s reform program in his second term, his developing presidential candidacy overshadowed it even more. State issues had absorbed him since 1928. Now it seemed time for him to turn his attention once again to the Nation. He had, of course, a mind well stocked with a variety of ideas and opinions on national questions. Still, his interest in both the American past and the present had tended to be practical and specific rather than reflective. He though he loved history; but serious history—analytical history— really bored him. What he really loved were books of travel or adventure or antiquarian reconstructions of the nautical or Hudson River past. He had no sustained interest in political philosophy or in economic theory.

There remained, however, a framework of general ideas in terms of which he approached contemporary issues. Whiling away time during his convalescence, he had embarked on the composition of a history of the United States. All that remains—probably all that was written—is the introduction, a bold sketch of the historical background of the age of discovery. But the terms of his approach were significant. Mechanical change, he felt, had brought about "a clear division of humanity into classes," where "a mere handful, certainly less than one in a hundred, owned and controlled the very lives and fortunes of the other ninety-nine." In such terms—"technical progress" and "social conflict"—he portrayed the decline of feudalism, the quickening of commerce, the rise of the middle class, and the expansion of Europe to the West.

He recurred to themes of change and conflict when he lectured at Milton Academy in 1926. History, he declared, remembering Endicott Peabody, had followed a series of up-and-down curves, but the up curves were always the longer. Change was inevitable in any society; unrest was "a healthy sign"; and social disorder was caused "as much by those who fear change as by those who seek revolution." Let not modern Rip Van Winkles seek "to justify conservatism by calling all who seek new things heretics or anarchists." Our national danger lay not in radicalism but in "too long a period of the do-nothing or reactionary standards." Science had transformed the conditions of existence. "No person who truly visualizes the future doubts that we are at the threshold of an era of cooperative endeavor between peoples and continents." As yet, we still suffered "from an ancient disease known as 'class consciousness.' " We talked of service; but "true service will not come until all the world recognizes all the rest of the world as one big family."

The challenge to American leadership, as he saw it in 1928, was to fit together "an old political order fashioned by a pastoral civilization and a new social order fashioned by a technical civilization." This required, he told the Harvard Phi Beta Kappa Society in 1929, a new recognition of society's obligations to the sick, the poor, and the helpless. "What used to be the privilege of the few," he said, "has come to be the accepted heritage of the many."

His conception of what he called at Harvard "The Age of Social Consciousness" drew strength, of course, from his conservationist's theory of government as trustee for the people, obligated to preserve and develop the nation's inheritance. It represented more broadly the welling up of the old emotions of the new nationalism and the new freedom—a tough grasp on central ideas of justice and welfare based on a profound commitment to old American dreams of progress. He believed in an ascertainable public interest and considered it worth fighting for.

One other strain entered in: that was his country squire's scorn for the rich who lacked a sense of social responsibility. This clearly ran through Franklin Roosevelt, even if he never articulated it so dramatically as did Hudson River neighbor, Herbert Claiborne Pell, of Hopewell Junction. Pell, who had grown up in Tuxedo and Newport in more splendid days and served as Democratic State chairman in New York for a time in the twenties, had no use for the businessmen who took over after the war. "The destinies of the world were handed them on a plate in 1920. Their piglike rush for immediate profits knocked over the whole feast in 9 years. These are the people, who with an ignorance equalled only by their impudence, set themselves up as the proper leaders of the country." He considered both aristocrat and bourgeois totally selfish, but the aristocrat at least thought of the interest of his grandson, while the bourgeois thought only of himself. By 1931, Pell disgustedly instructed the managers of his property not to invest a dollar in any American corporation. The country was doomed, he said, until it could liberate itself from the rich. "They have shown no realization that what they call free enterprise means anyting but greed." Don't fool yourself, he warned his own class: the masses "will overwhelm us or protect us according to whether they have been cheated or treated fairly."

Pell's words were too biting for Roosevelt's more politic temperament. But Roosevelt combined a similar sense of nobless oblige and community responsibility with a landed gentleman's disdain for trade and an aristocrat's lightheartedness and complacency. His long acquaintance with the rich gave him advantages in dealing with them. "Wilson thought that the rich were villains," said an old friend of Roosevelt's; "Mr. Roosevelt knew they were foolish and ignorant." He had no respect for their judgment or their aspirations. "We may well ask," he said in a Fourth of July speech in 1929, "are we in danger of a new caveman's club, of a new feudal system, of the creation of such a highly centralized industrial control that we may have to bring forth a new Declaration of Independence?" The crash destroyed no illusions for him. It only confirmed his sense of the greed and stupidity of business leadership.

VII

Still, he could cope with the crash emotionally better than he could intellectually. All he could recall of the classical economics he had learned at Harvard now seemed irrelevant. "Our professors"—he would describe a circle on the desk—"taught us: this sector of the circle is wealth, this sector here is empty, and so on. All gone!"

Sam Rosenman was no better prepared to deal with the economics of depression. "If you were to be nominated tomorrow and had to start a campaign trip within 10 days," he told Roosevelt in March 1932, "we'd be in an awful fix." Broad impressions were not enough; somewhere there had to be specific ideas. Whom should we consult? Roosevelt asked. Not businessmen nor politicians, said Rosenman; they had had their chance and fallen on their faces. "I think we ought to steer clear of all those. * * * My idea is this: Why not go to the universities of the country? You have been having some good experiences with college professors. I think they wouldn't be afraid to strike out on new paths just because the paths are new."

Roosevelt puffed on his cigarette. The idea could hardly have been new to him: he had been calling on college professors ever since the beginning of his governorship. Two months before, at lunch with Prof. Raymond Moley, of Columbia, he had made an apparently casual remark which Moley had interpreted as an invitation to help on the national campaign. Rosenman, acting independently, now proposed that Moley be made a key figure in the operation. Nodding, Roosevelt told Rosenman to go ahead.

Rosenman promptly called Moley to explain the importance of equipping the Governor with a corps of experts. "He made it easy for me to encourage the notion that he was the originator of this happy idea," Moley later wrote. "To have said that it had occupied my thoughts every waking hour [since the lunch with Roosevelt] would have been unkind and stupid." In any case, Moley responded gratefully. When he and Rosenman met a short time later with Basil O'Connor in New York, Moley had already drawn up a list of topics and of men who might deal with them.

For agriculture, Moley nominated his Claremont Avenue neighbor and Columbia colleague, Rexford G. Tugwell. For credit, he suggested Prof. Adolf A. Berle, Jr., of the Columbia Law School. Other Columbia professors were proposed, some of whom contributed memorandums and joined the Albany discussions. But Moley, Tugwell, and Berle, along with Rosenman and O'Connor, were the most durable members of what was soon known as Roosevelt's brains (later brain) trust.

Though Moley was not a man of the intellectual stature of Tugwell or Berle, he was unquestioningly accepted by them and by Roosevelt and Rosenman as leader of the group. A native of Ohio, 45 years old in the spring of 1932, he was a political scientist whose specialty was the administration of criminal justice. He had been fired early by the reform ideals of Tom Johnson and Newton D. Baker in Cleveland and had dabbled in Ohio politics 15 years before, even becoming mayor of the tiny village of Olmsted Falls. But he had decided to retain his academic base and in 1923 moved east to join the government department at Columbia. His interest in criminal justice brought him into contact with Louis Howe; and in the 1928 campaign Howe introduced him to Roosevelt. As Governor, Roosevelt fell into the habit of calling on Moley for drafts of speeches and statements, first in the field of juridical reform, and then more generally.

Moley was a stocky, square-shouldered man, streaks of gray in his thinning dark hair, shrewd, affable, and engaging, with a well-organized mind and a flair for speechwriting. His voice was low and drawling, his manner almost diffident; he constantly smoked a professor's heavy dark pipe; but he had a quiet persistence in pushing forward himself and his ideas. Among academicians, he played the role of the realist who understood practical politics, scoffed at idealism, and dismissed the higher fervor of reform with tolerant cynicism. "I feel no call to remedy evils," he liked to say. "I have not the slightest urge to be a reformer. Social workers make me very weary * * *. I am essentially a conservative fellow. I tilt at no windmills." As ringmaster of the experts, he was tactful and, as middleman for their ideas, judicious and sensible. Roosevelt found his efficiency of great value. But Moley also had his own interior stresses. He was emotional in his attachments and his jealousies; and his affability concealed anxieties that strain and time might bring to the surface.

VIII

Tugwell and Berle had greater confidence than Moley in the field of ideas but much less in the field of politics. Each approached worldly affairs with a curious mixture of tentativeness and arrogance. Tugwell, with his bright eyes and handsome profile, his bold enthusiasms, and audacious ideas, liked to shock, and often succeeded. Berle, slight, erect, quick of motion and brilliant of tongue, had been a child prodigy, a Harvard A.B. at 18, with experience ranging from the Versailles Conference to the Henry Street Settlement with Lillian Wald. He was capable, if necessary, of diplomacy; but, with his edgy manner and his intolerance of fools, he sometimes exploded in scarcasm and disgust. He had been a Hoover man in 1928 and was inclining toward Baker in 1932. Both men were continuously fertile in ideas, and neither was constrained by the past or intimidated by the future. It was of Berle that H. G. Wells remarked, "He began to unfold a view of the world to me which seemed to contain all I had ever learnt and thought, but better arranged and closer to reality."

Moley, Tugwell, and Berle agreed on the nature of the economic problem. For them all, bigness was inevitable in economic life; "competition, as such," as Moley put it, "was not inherently virtuous * * * [but] created as many abuses as it prevented." They all dismissed the Wilson-Brandeis program of breaking up big business as futile. The problem was not to atomize bigness but to place it under control—to end what Moley vividly called "the anarchy of concentrated economic power which, like a cannon loose on a frigate's deck, tore from one side to another, crushing those in its path." "We are no longer afraid of bigness," said Tugwell. "* * * We are resolved to recognize openly that competition in most of its forms is wasteful and costly; that larger combinations must in any modern society prevail. * * * Unrestricted individual competition is the death, not the life, of trade."

This was the background of the ideas they brought to Albany, talking them over with the Governor on the broad, old-fashioned porch of the Executive Mansion or around the fireplace in his study. Tugwell was dubious on his first Albany trip, expecting to meet the evasive executive he had read about in the newspapers. Roosevelt was in his chair on the veranda. Tugwell was instantly struck by the smile, the tossed head, the gesture with the cigarette holder. "Everything I saw and heard was merged in an impression of vitality." Later they went into the sprawling Victorian house filled with overstuffed chairs. They dined, sitting around a table laden with a profusion of jellies, pickles, hot biscuits, and nuts. Roosevelt attacked the roast duck with gusto but commented that he preferred wild duck, "well-hung and chased over the fire," a sophisticated taste astonishing to Tugwell. Then they retired to the library for eager, probing talk.

There were many such evenings. Moley urbanely steering the discussion, Tugwell and Berle flashing ahead with their ideas, Rosenman acting the devil's advocate, O'Connor offering the realist's comment, and always Roosevelt, listening, interrupting, joking, needling, cross-examining, absorbing the ideas and turning them over in his mind. With his broad family humor, he called the group his "Privy Council," as he spoke of "Sammy the Rose" and "Henry the Morgue"; but no one could tell from his genial curiosity what he accepted from them, or what he rejected. "We could throw out pieces of theory," Tugwell wrote later, "and perhaps they would find a place in his scheme. We could suggest relations; and perhaps the inventiveness of the suggestion would attract his notice. But the tapestry of the policy he was weaving was guided by an artist's conception which was not made known to us."

IX

It was the economic crisis that dominated these evenings. The group rejected the latter-day Hoover thesis that the depression was international in origin. Tugwell expounded the underconsumptionist theory: the failure of business to pass on the gains of improved productivity either through higher wages or lower prices had caused a deficit of purchasing power which made depression inevitable. (The night after he had set this forth in Albany, a jobless man caught his sleeve on upper Broadway. Tugwell turned and said, "My friend, I did you a good turn last night." The panhandler stood openmouthed.) Roosevelt seemed to accept the underconsumptionist thesis as a matter of course. What should be done? Tugwell believed that prices of manufactured goods had to be forced down. "Why not raise wages too?" asked Roosevelt.

There were differences here. Tugwell, in his way, agreed with Mellon that the fever of the twenties had to run its course. The struggle to maintain the price structure, he feared, would hold back recovery. But Berle and Roosevelt had inflationist leanings. The price of deflation seemed to them too great. Yet they conceded that inflation might do nothing but perpetuate structural maladjustment. Whatever their differences on the price question, Tugwell and Berle agreed that some prices should go down, some up. One day in May, Roosevelt asked Tugwell about money as a means of raising the price level. Tugwell told him about the theory of the "commodity dollar" but tried to suggest that the purely monetary approach was inadequate. Roosevelt remained discontented; he wanted something simpler than we could provide."

When Roosevelt left for Warm Springs late in April 1932, he asked Moley and Rosenman to continue preparing memorandums "so I don't get too far behind on my homework." When Rosenman went down to visit Roosevelt 3 weeks later, be brought a great pile of documents, covering a variety of issues. By this time Roosevelt was scheduled to speak at Oglethorpe University. Ernest K. Lindley of the New York Herald Tribune, a sympathetic newspaperman who had absorbed many of Tugwell's and Berle's ideas, provided the Oglethorpe draft, with its emphasis on the need for planning and for bold, persistent experimentation.

This was the last speech of the preconvention campaign. But there was no rest for the brain trusters. Some policy questions were proving harder to crack than others; in particular, the agricultural problem—Tugwell's special job—remained baffling and unsatisfactory. Tugwell, regarding his own thinking on the subject as stale, rather desperately decided to attend a meeting of farm economists held in Chicago shortly before the convention. From Beardsley Ruml in Washington he had heard hints of new developments in the domestic allotment plan; at Chicago he could talk with M. L. Wilson, of Montana, who had become the plan's apostle. When he arrived in Chicago, he found not only Wilson, but Henry Wallace, of Iowa. For several days they talked late into the night in the dormitory rooms at the University of Chicago where they were billeted. Tugwell was finally persuaded that he had found what he was seeking—a workable means of restricting agricultural production on which the farm leaders might agree.

But time was growing short. On Monday of convention week, Tugwell called Roosevelt and tried to unravel the intricacies of the plan. After half an hour, Roosevelt, finding he still did not get it, brought Rosenman to the phone. Rosenman could not get it either. Roosevelt laughed. "Well, Professor," he finally said to Tugwell, "put it in a telegram—200 or 300 words—and we'll work it into the speech. I'll take your word for it that it's the latest and most efficient model."

Moley had completed the first draft of an acceptance speech by the third week in June. Then he went on to Chicago, where he joined Tugwell, while Roosevelt and Rosenman began the long vigil in Albany. The Moley draft was too long, and Roosevelt worked away at odd moments with Rosenman to cut it down. The speech also lacked a conclusion. After listening to the all-night balloting, Rosenman, nervous and restless, retired with hot dogs and a pot of coffee to try his hand at writing the peroration which he half thought would never be used. It was then that Rosenman, jogged perhaps by the title of a Stuart Chase article in the current New Republic ("A New Deal for America") but without noting any special significance (any more than Roosevelt did when he came to deliver the words), set down the sentence, "I pledge you, I pledge myself, to a new deal for the American people."

[From The Nation, Dec. 10, 17, and 24, 1930]

FIGHTING UNEMPLOYMENT

I. Organizing the Labor Market

(By Henry Raymond Mussey)

Unemployment has become a permanent feature of American life. In no year since 1920, it is safe to say, has the average number of workers out of a job in nonagricultural employments fallen as low as 1,500,000. In the worst years it has probably been three times as great, students of the subject tell us, though nobody knows even approximately the actual number today. The difference between good and bad times is one of degree, but during good times we forget the whole thing. The more reason, then, that we should not let the present crisis pass without making at least a start on policies that give promise of reducing unemployment in future and eliminating its worst results. Organizations of the labor market, unemployment insurance, and stabilization of industry—these are the lines of attack on which scientific students of unemployment have centered attention, and no need for immediate relief measures ought to be allowed to divert attention from them.

At present we can think of nothing but unemployment due to hard times, or in more elegant language, the cyclical fluctuation of industry. As a matter of fact, the best figures that we have (poor enough at that) indicate that over any considerable period of time such fluctuation does not account for even as much as one-half of our total unemployment, the remaining amount being due to seasonal irregularity, the displacement of men by the introduction of better machinery and organization (technological unemployment), and casual labor, such as exists among the dockers of an unorganized port. Cyclical unemployment, from which we are now suffering, is the most spectacular of all, is due to causes the least understood, and is therefore the hardest to attack. It will be the less puzzling, the better we are able to isolate it from unemployment due to other causes. Full, accurate, prompt, and continuous knowledge of employment conditions throughout the country is a prerequisite to intelligent action in meeting other kinds of unemployment and thus paving the way to an attack on the baffling problem of cyclical fluctuation. Such knowledge it is impossible to get without a comprehensive organization of the labor market, and that organization is therefore a first condition of any intelligent program to prevent unemployment. It is a means both to knowledge and to direct prevention.

Nationwide organization of the labor market in a huge country like this will be largely organization by industrial districts. State lines mean little. Yet our efforts in the past have necessarily run largely along State lines. Aside from the efforts of trade unions to inform their members of work opportunities, aside from the work of private fee-charging agencies, and aside from the short-lived wartime Federal Employment Service, what little has hitherto been done in organizing employment exchanges has been done by the States and municipalities. Yet according to the report of the Senate Committee on Education and Labor in 1929, the total appropriations of all the State governments together for this purpose amounted to but $1,203,906, of which sum Illinois alone expended more than one-sixth. There were only 170 State and municipal public employment offices in the entire country. On June 25 last the number had risen to 176. Plainly enough, under the best conditions these more or less isolated efforts could not possibly meet the countrywide need for bringing together the worker and the job, to say nothing of furnishing the comprehensive and continuous information that is necessary.

But no one familiar with the history of these bureaus would maintain that most of them have worked satisfactorily. I quote the words of Benjamin M. Squires, chairman of the General Advisory Board of Illinois, who speaks understandingly and sympathetically of the work of such offices:

> Their answer (that of personnel men) concurred with my own views as to public employment offices wherever they have been set up; and that is that the best labor does not apply there. And when they have tried to get help from the public employment offices they find the men sent do not fit the job. They state in further detail that the public employment offices are not well located, not well planned, not well staffed; that the personnel of the public employment offices is frequently controlled by political influence; and that the insecurity of the job makes it difficult to secure competent help through those offices.

Too often, as Mr. Squires suggests, State employment offices have been havens for political hacks; yet even so the record is by no means wholly barren, and in some cases notable and encouraging advances have been made recently.

Even if the record is somewhat discouraging, then, it ought to be noted that what little we know about the facts of unemployment we owe largely to the work of State departments of labor, like those of Massachusetts and New York, which over a period of years, with the cooperation of trade unions and employers, have been patiently building up a system of regular reports. The Federal Bureau of Labor Statistics also, cooperating with the State bureaus, and depending on the direct reports of employers in States where such cooperation does not exist, now receives, directly and indirectly, reports from establishments employing almost 5 million workers. Its monthly figures give some information, at least, about the total number and proportion of unemployed workers in manufacturing, mining, public utilities, and trade. The Bureau's ill-advised efforts of last winter to get weekly reports for a time, in response to orders from above, threw the whole reporting situation into confusion; and the results were used by the administration, it will be remembered, to throw dust into the eyes of the public. Reporting machinery cannot be devised overnight. The Bureau recently called attention sharply to the fact that nobody knows, and that it is nobody's business to know, even the total number of men out of work throughout the country at any given time, to say nothing of having the body of detailed information by industries and localities that we need. It is in such a situation that we have now to take action. While State and local activity are important, national action is absolutely necessary if anything important is to be accomplished. We cannot solve a national problem without dealing with it on a nationwide scale.

The Wagner bills are a first step in the right direction. After a hard fight, in which the administration for the better part of 3 years was consistently on the wrong side, the first of these bills (S. 3061) was passed by both Houses of Congress and signed by the President on July 7 last. By failing to make any appropriation, however, Congress made it of no effect for the time being. The bill appears innocuous enough. It simply directs the Bureau of Labor Statistics to collect and publish monthly statistics of employment as indicated by number of persons employed, total wages paid, and total hours of employment, in manufacturing, mining, construction, agriculture, transportation and public utilities, and retail and wholesale trade. The Bureau is also authorized to arrange with State and municipal agencies for their help in getting the figures. The importance of this law consists in its promise and its possibility, not in its actual prescriptions. Once we accept national responsibility for learning and publishing the elementary facts of employment and unemployment, the work may be developed as desired, and in time we may get full current informatioon. It is not hard to show, however, that such information will always be incomplete in the absence of the labor registration that is a prerequisite of insurance.

The second bill (S. 3060) has passed the Senate and has been held up by administration forces in the House, where it is being dangerously attacked by the process of amendment. The bill as passed by the Senate directs the Bureau of Labor Statistics "to establish and maintain a national system of employment offices" and "to assist in establishing and maintaining systems of public employment offices in the several States and the political subdivisions thereof." An annual appropriation of $4 million is contemplated, of which $3 million is to be available for distribution among the States, in proportion to population, to aid in the maintenance of State and municipal employment offices. In each case the State must accept the provisions of the Federal act and must appropriate an amount at least equal to the subsidy it will receive. Further, the State agency must be carried on in accordance with plans approved by the Director General of the Federal Employment Service. The familiar scheme of Federal subsidy to the States, which has been successfully applied in the case of roadbuilding, maternity work, and other activities, would thus be used to stimulate the activity of the States, to bring about as far as possible uniform policies and procedures, and to unite the various State and Federal offices into a single national system, without taking away the independence or responsibility of the States, although they would be held to Federal standards just as in road work. The Federal Bureau would be charged with the responsibility for publishing information on employment opportunities and for clearing labor among the States—a function not possible for the State bureaus.

This bill has received the support of scientific students and civic organizations all over the country. It was opposed in the House hearings last spring only by the National Association of Manufacturers and the private employment agencies, which latter fear the effects on their business of a thoroughly organized and well-managed nationwide system of employment exchanges. Mr. James A. Emery, for the manufacturers, urged the menace of Federal bureaucracy and the invasion of States rights. Proposed House amendments tend simply to weaken the bill, and it is to be hoped that they will not be embodied in the measure as finally passed. Among other things, such amendments would reduce the salary of the director of the proposed employment service, and would take away the authorization to establish and maintain uniform standards, policies, and procedure among the States, and to aid in the transportation of workers going to employment. The bill as passed by the Senate is by no means perfect. The authorized appropriation of $3 million a year that is proposed for State subsidies during the period up to June 30, 1934, if matched by equal State appropriations, would make available for the State offices some $6 million, a sum five times as great as that expended by the States before the business depression. Even so, the amount will be inadequate if the system grows as it ought to, and adequate appropriations will have to be forthcoming as the work develops. More serious is the fact that the bill, as expounded by Senator Wagner to the House Committee on the Judiciary, would not give to the Federal Employment Service the power to require, as a condition of subsidy, the appointment of employees of State offices under civil service regulations. If the practical result of the Wagner bills were to be simply the subsidizing of State employment offices politically manned and run, then we should have merely a fresh waste of public money. The matter is one of importance if we are to build up a national employment service and not a set of State bureaus cursed with political personnel, as they have often been cursed in the past.

The bill ought to be safeguarded in this particular, and driven through to enactment in the present session essentially in the form in which it was passed by the Senate. If this be done, we shall have the beginning of a national employment service, even though its form be much more decentralized than is theoretically desirable. The essential thing is not theoretical perfection, but the setting up of a practical and workable system, national in character, operation, and outlook, yet adjusted to local peculiarities and difficulties. It is not necessary to do more than suggest the possibilities of such a service if it were given the ungrudging support of the administration and of Congress, and were put under the direction of any one of half a dozen competent students and administrators who are at present to be found in the Federal and State administrative services and in the universities as well.

Advocates of such a system, however, ought not to exaggerate what it can accomplish. Assume that passage of the Wagner bills is only the first step in establishing a national system of employment offices, and that such a system will be fully developed. Even so it can only prevent a certain undetermined amount of unemployment by bringing together unemployed men and vacant jobs when both exist, and can furnish certain essential information to serve as a basis for stabilization procedure, and for insurance when unemployment cannot be prevented. At present workers spend millions of dollars on "situations wanted" advertising in the newspapers and many more millions for the services of fee-charging private agencies. The abuses of this type of agency are so grave that a number of European countries and five Canadian provinces have prohibited their operation entirely. The Supreme Court of the United States, however, has held, though with strong dissenting opinions, not only that a State may not prohibit such agencies, but that it may not even regulate the fees charged by them. For the present, therefore, whatever the future may hold in store, a public system of employment offices will have to establish itself in the face of private competition. It cannot be the exclusive and all-inclusive agency for the placement and clearing of labor. Therefore the information at its disposal cannot be complete, and accordingly it cannot perform either its placement or its information task with theoretical perfection. Only as a public employment service is combined with some kind of insurance system under which all workers are registered with that service as a condition of enjoying insurance benefits, does its work approach such perfection. Public opinion in this country has not yet accepted any general system of unemployment insurance, however rapidly it may be moving in that direction. We cannot hope immediately, then, for anything better than a partially effective employment service. The more reason for taking promptly the first necessary steps, in order to prepare the way for the next ones.

II. Unemployment Insurance

Interest in unemployment insurance is rapidly increasing in the United States. If we want to establish a workable and effective system, we have available for our guidance a rich body of European experience, by whose lessons we may profit greatly. Great Britain is the classic home of unemployment insurance, having established the first modern compulsory system in 1911. It was followed in order by Italy, Austria, Queensland, Russia, Poland, Irish Free State, Germany, and France, all of which introduced compulsory insurance at various times between 1919 and 1930. Six other European countries subsidize the unemployment funds of trade and fraternal organizations and of cities. A large part of all this experimentation, it should be noted, has occurred during the postwar decade, and has had to cope with the extraordinary industrial difficulties of that time. These difficulties in turn have given rise to much of the legislation. No small part of the criticism of the working of the insurance plans has arisen out of these special difficulties rather than out of anything inherent in the insurance principle itself.

The problems involved are grave enough, but it is worthwhile in studying them to remember the emphatic testimony of a skilled American observer, Miss Mary B. Gilson, who, after a careful study of the British system last year, wrote: "I found not a single employer who would willingly abandon unemployment insurance for the old haphazard methods of relieving destitution due to unemployment." Such testimony could be multiplied, but it is unnecessary to do more than quote the words of the Blanesburgh committee which reported in 1927: "Nobody has suggested to us that the principle of unemployment insurance should be abandoned." In Great Britain, as elsewhere, the plan has succeeded so well, despite all difficulties, that everyone has accepted its basic principle, though there is endless disagreement over its application. An examination of the great British system illustrates clearly both what can be accomplished and what ought to be avoided.

The original British plan, established by a Liberal government in 1911, rightly combined a national system of labor exchanges with the scheme of unemployment insurance; for insurance without such exchanges would be unworkable and disastrous. The system was compulsory on industries employing about 2,250,000 workers, and required contributions from employers, employees, and the state. An unemployed worker was entitled to benefit up to 15 weeks in any 1 year, but to no more than 1 week of benefit for 5 weeks of contribution. The scheme was on a straight insurance basis, and was in no sense a plan of unlimited unemployment relief. It was designed to be self-supporting, and there was a provision for a readjustment of rates if the fund at any time threatened to become insolvent. Launched in a period of good times, the system got into operation smoothly, and by August 1914 the fund had accumulated a surplus of £3,185,000.

The war and the catastrophic unemployment following it completely changed the situation, and led, in March 1921, to the introduction of "extended benefit"; that is, the payment of benefits, at first for 16 weeks only, to those who had exhausted their insurance right to benefit. At this point, that is, unemployment relief in the form of the "dole" was added to unemployment insurance, though the name and the form of insurance continued. In 1924, under the Labor government, benefit was made unlimited in time, and that principle is retained in the existing act, which was passed by the Conservative government in 1928, and which covers more than 12 million persons, including all workers between 16 and 65 except those in agriculture and domestic service, and a few other relatively small groups. The scheme has no real actuarial basis, and now rests essentially on Treasury grants. The contributions of employers and employees are little more than a mode of taxation, and except for these contributions, the plan differs comparatively little from unlimited noncontributory relief. Contributions, moreover, are not proportioned at all to unemployment in various industries; and with unemployed percentages varying from less than 3½ percent in commerce, banking, professional services, and tramway and bus service to about 28 percent in shipbuilding and dock service, it is plain that the steady industries are being compelled to pay for the sins of the irregular and overstaffed ones. The crowding events of the postwar years have thus fundamentally changed the character of the scheme. In its origin it was a plan of genuine and limited insurance based on the contributions of employer and employee, with Government subsidy. It has become a plan of practically unlimited unemployment relief, based on public funds derived from taxation. It is perhaps not strange that Americans, urged to introduce unemployment insurance, point to the British experience and ask whether advocates of the insurance plan wish to see a similar development here.

What, then, are the actual gains and losses that Great Britain has derived from this combined insurance-relief system? Would it be possible for us to attain the gains without suffering the losses? What are the dangers to be guarded against if we are to set up an insurance scheme? As for the first question, the one great item on the credit side of the ledger is that through the worst industrial depression in British history, the standards of living of the working people of Great Britain have been maintained to a degree that would be unbelievable if the facts were not so clear. Health records, crime records, records of every kind agree with the testimony of social workers and other first-hand students of working class conditions that the lowering of living standards and the loss of working morale in consequence of the severe and long-continued depression and consequent unemployment have been astonishingly small. Indeed, it is the opinion of the most competent scientific students that the insurance and relief system has been perhaps too successful, as will be pointed out later, in keeping up standards of living. Be that as it may, no one will question the immense social gain that has accrued to Great Britain as a result of the protection its workers have had. Nor will anyone seriously question the contribution of the insurance laws to British social stability during these last difficult 10 years. The Communists will despise them for thus hindering the onset of revolution; the rest of the community will be likely to value their service highly.

But there is another side to the account. It is not that men live off the dole instead of seeking work, as has been so often and so vociferously charged. The evidence on this point is quite clear, and Sir William Beveridge, one of the foremost authorities on the subject of unemployment, characterizes such charges as "idle and irresponsible talk." The system of labor exchanges, an indispensable part of any sound insurance scheme, makes it possible, as Beveridge points out, to control with comparative ease any tendency to prefer idleness to work. If the British experience is any guide (and the experience of Britain does not differ from that of other countries) the United States need not be deterred from introducing unemployment insurance by the fear that its workers will be demoralized by it. The danger lies in another direction. As Beveridge says, it consists in:

> * * * the risk of demoralizing governments, employers, and trade unions so that they take less thought for the prevention of unemployment. Relief of unemployment is after all a very bad second best to its prevention. * * * Once it is admitted in principle that, either under the guise of insurance or in some other form, genuine unemployment can be relieved indefinitely by the simple device of giving money from a bottomless purse, prevention is too likely to go by the board.

These are weighty words, whose meaning and application ought to be pondered carefully by every friend of unemployment insurance; for, to quote Beveridge once more, "A state which undertakes to relieve adequately and indefinitely from a bottomless purse all the unemployed will soon find itself subsidizing the manufacture of unemployment, unless it adopts countermeasures."

To illustrate, England's coal trade in its old extent is gone. If, then, England simply continues indefinitely to pay unemployment insurance, or more properly relief, to unemployed miners, they tend to remain in the depressed areas permanently unemployed, instead of moving elsewhere to better industrial opportunities. If the docks continue their old practice of hiring men on an absolutely casual basis, maintaining what have been called stagnant pools of only partly employed labor, and if the state proceeds to pay insurance benefits to these unemployed men, out of funds derived from taxes or from the contributions of more regular industries, then plainly the state is subsidizing the docks to maintain men in chronic unemployment. And, paradoxical as it may all appear, if the state uses its system of insurance and relief to maintain living standards and wages at a point higher than that at which industry can profitably employ all the workers, then the state is creating permanent unemployment and is lessening the total product from which all incomes must be drawn. It is not possible to do more than thus suggest briefly a few of the outstanding difficulties and dangers of administering a system of unemployment relief; nor is it possible to indicate in detail the "countermeasures" that Beveridge points out are necessary if the dangers are to be avoided. Suffice it to say that both British and other experience indicates that the dangers can be avoided provided political and industrial administrators are willing to do the necessary thinking and planning. As a single illustration, Beveridge suggests that employers in chronically irregular industries might be charged for each man registered as available for work, no matter how much work he got, or such employers might make a payment each time they dismissed a man—a suggestion very similar to that of a tax on labor turnover suggested by a correspondent elsewhere in this issue.

If, then, we are to introduce unemployment insurance, which present conditions imperatively demand, we must meet the conditions necessary to its success. We must have a national system of employment exchanges. We must distinguish sharply between insurance and relief, and must remember that the latter is defensible only as a temporary measure to meet extraordinary conditions. We must forever bear in mind that insurance is not simply a means of preventing distress, but that exchanges and insurance alike are means of fitting the supply of labor to the demand so as to insure the worker the highest pay possible consistent with steady employment. Finally, we must recognize the danger that insurance will lessen the intensity of individual and collective efforts at stabilization, which after all is the ultimate goal to be sought. So far as there is a distinctive American approach to the unemployment problem, it contemplates an attack through such regularizing of employment rather than through the relief of the unemployed. For that reason there is perhaps the less danger that success with insurance will lessen our efforts at prevention.

We have had hitherto in this country no serious proposal for a national system of unemployment insurance. Now is the time to strike for it. Fifteen bills for State systems have been introduced in State legislatures during the past decade and a half. Not one has been enacted. No State system, moreover, can adequately meet the need. Despite manifest constitutional difficulties, then, we must now drive forward to erect a national system of employment exchanges plus a national scheme of unemployment insurance, the two being intimately wrought together. The insurance scheme ought to be contributory, with Government subsidy, on a strict actuarial basis. If, in addition, experience should in time show the necessity for relief (as opposed to insurance) under extraordinary conditions, it ought not to be confused with insurance, and it ought to be financed entirely out of taxation. But we ought definitely to set our faces against any idea of permanently supporting any body of men in idleness. That is to throw up the problem, not to solve it. As foreign experience, even amid the difficulties of the past 10 years, shows, exchange and insurance machinery can be used to increase, not to lessen the stability of industry and employment. That stabilization is the aim of any intelligent fight on unemployment. For as Beveridge says, "Unemployment remains * * * a problem of industry, not an act of God."

III. Stabilization

The only thing to do with unemployment is to abolish it. The only way to abolish it is to stabilize employment. An unemployment program, therefore, must lead up to stabilization as its ultimate goal, and must include every possible immediate step toward that goal. Labor exchanges and insurance should be regarded as means to the steady and productive functioning of industry, and should be handled with that end in view. But there are other tasks of organization and direction that industry itself must perform if the industrial machine is to run steadily; and the Western World today faces a grave question in consequence: Can those tasks be performed adequately without such a centralized control of industry, and maybe of consumers' choices themselves, as exists at present nowhere outside of Soviet Russia? We of the West face the problem of reconciling individual freedom as we have developed it with industrial stability as we have not yet developed it.

Unemployment as we know it today falls into four chief classes: seasonal, casual, technological, and cyclical. Unfortunately, we have no figures that really show their comparative importance. All are important enough. No two demand exactly the same treatment. But in connection with all alike, as Feldman points out in his notable book "The Regularization of Employment," we find one effective cause of unemployment; namely, the indifference of management. As Feldman shows, the individual concern, under favorable conditions, even with our existing industrial organization can accomplish vastly more than has commonly been supposed in doing away with unemployment, particularly of the seasonal, casual, and technological type. In fact, the distinctive American contribution to the problem of preventing unemployment has consisted largely in showing what the individual employer can actually accomplish when he definitely accepts the regularization of employment as one of the major ends of management.

In the seasonal field I will take only two well-known examples—the Dennison Manufacturing Co. and Hills Bros., packers of dromedary dates, both carrying on business of a highly seasonal character. They have been able, in the one case by an advanced sales technique and the development of a variety of products, and in the other by a fundamental change in technical equipment, to reduce their operations to almost entire regularity and to cut down unemployment among their employees almost to nothing. The task of regularization is extremely hard to accomplish in seasonal trades, like some parts of the building industry, whose actual operation depends directly on the weather, and in style-bound trades, like millinery and clothing, where it seems wellnigh impossible to produce except in immediate response to the instant style demands. We need to give the less advanced concerns and the more backward industries an effective motive for trying experiments along the lines that the more advanced ones have followed on their own initiative. Such a motive might possibly be found in a discriminating tax rising with irregularity of operations. Sir William Beveridge in his great book suggests two specific possibilities of this kind, and a correspondent in The Nation of December 17 put forward the interesting suggestion of a tax on labor turnover, a possibility well worth exploring.

The situation is different in casual unemployment, and the case against management is distinctly stronger than in the seasonal trades. Work on the docks of a great seaport affords the classic illustration. Work at any one dock is highly irregular. All the docks together operated separately, accordingly attract a body of labor much larger than they can keep fully occupied, and there is therefore chronic underemployment among dockers. Experience has show that it is possible to overcome this condition by organizing the labor market of all the docks of a port as a unit. Yet men for the most part are still hired in the old helter-skelter fashion because it is easy to get labor so. Casual unemployment, or underemployment, then, is susceptible to attack through the machinery of labor exchanges, provided employers are required to meet their needs exclusively through the exchanges. But the employers in such industries show little capacity or inclination to bring about any organization. We ought to make a vigorous frontal attack by organizing public labor exchanges and requiring employers to get their labor through these agencies.

Technological unemployment, which looms so large in present-day thinking, is being attacked by some firms which, before introducing a new machine, for example, require their staff to plan not only for the running of the machine, but for the employment elsewhere of the men that it displaces. However, the problem caused by technical progress in making large numbers of men superfluous where they have been employed cannot be solved by individual action alone. There must be an organization that will bring such men promptly into touch with the new industrial opportunities that are constantly being created in other lines, and that will give them the retraining required to meet the new opportunities. We thus come back to a comprehensive system of labor exchanges and insurance intelligently administered with a view not to freezing industry in its existing mold, but to bringing it about that the constantly accelerating technical changes shall bring a minimum of loss to the workers involved. This result will not be accomplished by private industry in pursuit of profits alone, for the quickest way to profit lies in the ruthless adoption of technical and organizational improvements, leaving labor to look out for itself as best it may. The history of our steel industry is a clear enough illustration of this policy and its results. Under the conditions now confronting us the cost of manufacturing millionaires by this method is heavier than we can afford to pay.

We have to remember, however, that stabilization would be highly undesirable if it involved the stereotyping of industry. We want progress in methods and organization, which means that men who have learned a certain trade of a certain job will be superseded by machines, and that industries will move from one place to another. It is desirable to have a rational growth of wants, which means that some industries will die and others will spring up; but there would be an immense social gain if the enormous apparatus of advertising could be reduced to a fraction of its present swollen proportions. In any dynamic society, however, even if the present feverish pace of change were somewhat moderate, there is bound to be displacement of labor, but an intelligent use of labor exchanges and insurance could bring about a stabilization of employment and income for the worker without a halting of progress.

When we turn to unemployment caused by the cyclical fluctuations of industry, however, we enter a field where we deal with forces less understood and therefore less manageable. If industry the world over shrinks sharply, as it has done during the past year, plainly no organization of the labor market, however efficient, can prevent unemployment. Industry in the United States today is estimated to be operating at 30 percent below its level of a year ago. There is bound to be a vast number of men out of work because there are not jobs enough to go around. To prevent this kind of unemployment we have got to stabilize industry itself, and in this respect we have thus far made slight progress.

We are reasonably sure, however, that the credit policies of central banks exercise a distinct influence in stimulating or repressing business activities. We are gradually building up a body of knowledge on which the banks can act. The Federal Reserve System, acting in conjunction with the central banks of other countries, even today can do much to lessen the extremes of business fluctuation, though it cannot of itself pull business out of the doldrums, as its present helplessness shows. None the less, it ought to be held to a full responsibility and pilloried for its weakness in failing to check speculative madness like that of 1929, with the resulting industrial boom and collapse.

Instead of stabilizing industry, some students in late years have grown enthusiastic over the possible use of public works to stabilize employment. Their hopes are greatly exaggerated. The notion that crises can be prevented by having an immense reserve of public works to throw into the breach whenever business falters is, I believe, wholly unsound, and the most that can be done by this means is to hold back during periods of good times certain public improvements not of immediate and pressing importance, with the idea of inaugurating them promplty when bad times threaten. Such action would involve the authorization of bond issues for public works long in advance of their actual inception, and the drawing up of programs of a comprehensive kind extending over a considerable period of years. Something, perhaps, can be accomplished by this method, but the possibilities of any such plan are extremely limited.

There remains the fundamental task of stabilizing the great industries themselves. From any rational point of view, why should the textile mills and the shoe factories of the United States be driven to capacity 1 year only and stand idle a quarter of the time the next? Given a certain population, we can draw up a budget of food, clothing, shelter, and other necessaries for them. That budget will not vary greatly from 1 year to the next. Why then should not the fundamental industries run regularly, leaving the luxury trades to bear the brunt of irregularity? The answer is, in part, at least, that the immense variety of goods at disposal of the modern community has brought it about that there are few real necessaries any longer. Shoes, for example, are no longer shoes; they are a hundred different patterns of shoes that may go out of style overnight and be discarded. There is no such thing as food; there are thousands of food articles whose consumption goes up and down with every change of income and of taste. If we are to keep this bewildering range of choice in respect to all kinds of goods, and are to change our choices overnight, as we have learned to do, it is hard to see how we are to stabilize the industries that produce to meet our tastes.

We need also a far-reaching plan of production if industry is to be steadied. We think of Russia and its Gosplan, and a conservative economist has recently put forward a proposal that American industry work out a ten-year production plan with a view to stabilizing industry. Such a proposal, however, in a society of highly developed individual economic freedom like ours encounters difficulties that do not exist in Russia. Russia's industrial dictators have the power to determine what people can get by determining what shall be produced. They can budget consumption requirements because they have the power to limit consumers' choices to what they choose to produce. Will we submit to any such limitation? And if we will, how are millions of independent producers to be induced or compelled to act in accordance with a unified plan? Yet even in the United States, under a ruthlessly competitive industrial system, businessmen have developed methods of cooperation in the face of common needs and dangers. While there is as yet little beyond vague suggestion of something resembling a national economic council, it is not inconceivable that our necessities may lead to the working out of a more or less rational plan of ordered growth, into which individual enterprises may fit themselves as a matter of self-preservation.

Organization will have to reach our beyond national boundaries, because the production and exchange of goods have become in so large a degree international. The Western countries have developed national central-banking machinery for the control of credit, and such machinery is being used, with an increasing degree of cooperation among central banks, for the purposes of financial stabilization. Is it impossible that a similar approach to industrial stabilization may yet be attempted? In any case, just as is true of the central banks, the organization cannot depend on private profits to make it go. It is no less clear that the successful working of any such organization would mean a great change in our present distribution of income, which contains in itself the pregnant seed of industrial disorder. Not until we can bring both economic and political life into a state of national and international order in place of our present competitive anarchy, can we hope entirely to abolish unemployment. Our capitalistic society today faces the question whether it is capable of bringing such order into our life. If not, then, to quote Mr. Thomas L. Chadbourne, "the people who are suffering from it will challenge our system just as inevitably as the earth goes around the sun."

[From the Forum, July 1931]

A "5-YEAR PLAN" FOR AMERICA

(By Charles A. Beard)

Is the concept of national planning merely another transitory fad, an idle fantasy born of daydreaming and destined like a thousands others to pass away tomorrow or the day after? The answer seems to be an inescapable negative. All Western civilization is founded on technology, and of inner necessity technology is rational and planful. The engineer must conform to the inexorable laws of force and materials. Technology cannot begin anything without first establishing a goal, a purpose. To proceed at all it must stake out a field of work; then in execution it must assemble materials and engines and carry on its operations according to blueprints until it reaches its predetermined ends. With irresistible might it strides across the wild welter of unreasoned actions, irrelevant sentiments, and emotional starts and fits which characterize historic politics, agriculture, and industry. As technology advances, occupying ever-larger areas of productive economy, there will be a corresponding contraction of the spheres controlled by guesswork and rule-of-thumb procedure. This means, of course, a continuous expansion of the planned zone of economic activity.

Rational in method and planful in procedure, technology is also centripetal in operation. Systematization and unification are inherent in its very processes. Every advance in the chemical field, for instance, involves contacts with other fields—the use of electricity, the exploitation of coal, and spinning, dyeing, and weaving. Wherever technology works in industry and transportation, it contributes powerfully to the concentration of productive activities—to the integration of small plants—thus running counter to the individualistic and freewill methods prevailing in the days of handicrafts and simple agriculture. Horizontal and vertical trusts and interlocking directorates are the inevitable outcome of technical rationality functioning under its law of efficiency. If technology, now young, is to go forward—and it will under the drive of mass demands for the comforts and conveniences of civilization—then the area of economic life controlled by planning will widen. The only question is: under what institutional auspices?

In this there is nothing new. Hints of it were discovered by Charles Babbage a century ago. There is nothing Russian about its origin. Indeed, planning of economy was anathema to the Bolsheviks until, facing the task of feeding enraged multitudes, they laid aside Marx, took up Frderick Winslow Taylor, and borrowed foreign technology to save their political skins. There is nothing in the concept that is alien to American experience. Our giant industrial corporations, though harassed by politics, bear witness to the efficacy of large-scale planning. From industry the idea spreads to politics. Its progress is symbolized in the rise of the budget system, in the work of the Bureau of Standards, and in the growth of city planning. At the present moment, two-thirds of the American cities with more than 25,000 inhabitants have planning boards or commissions, and collectively they have in course of execution projects of great magnitude.

City planning is represented by a national association, a magazine, a national conference, university chairs, a practicing profession, volumes of statutes and ordinances, and achievements of no mean proportion. State planning for power, agriculture, highways, and other branches of economy now looms large in Governors' messages. Fragments of national planning are already scattered through the agencies and establishments of the Federal Government and await the touch of engineering genius to extend them and tie them into a consistent organization for efficient functioning on the national stage. Planning is already here; it is inherent in our technological civilization, which is now as American as the individualistic agriculture that held the center of the economic stage for two centuries during our early development. It would have gone forward inexorably, even if the Russian revolution had not borrowed it and dramatized it.

It is merely accentuated today by an industrial paralysis which promises to be deeper and more prolonged than any previous crisis of the kind. The American people now stand aghast at the paradox of wheat piled mountain high and shoe machinery rusting while millions willing to work go hungry and unshod. This paradox is no longer pointed out by a few "long-haired agitators." From the top to the bottom of our civilization a searching of hearts is proceeding with startling rapidity.

A business leader as experienced and practical as Daniel Willard openly informs the Wharton School of Finance and Commerce that "A system—call it what you will—under which it is possible for 5 or 6 millions of willing and able-bodied men to be out of work and unable to secure work for months at a time, with no other source of income, cannot be said to be perfect or even satisfactory; on the contrary, it can be said to have failed in at least one very important detail. I can think of nothing more deplorable than the condition of a man, able and anxious to work, but unable to secure work, with no resources but his labor and, perhaps, with others even more helpless dependent upon him. Unless he is willing to starve and see those who justly look to him for support also starve, his only alternative is to seek charity and, failing that, to steal. While I do not like to say so, I would be less than candid if I did not say that in such circumstances I would steal before I would starve." Evidently we have gone a long way from the day when an ex-President of the United States could fling back the cry "God knows; I don't" to a workingman asking what he should do in the face of unemployment and starvation.

But the issue transcends the present crisis. The crisis will pass. Still the waste of our natural resources, the neglect of our opportunities, the failure to use our marvelous material endowment efficiently will be pointed out by technology with increasing emphasis. Awareness of the necessity of planning will spread. Projects and work in hand will force the gates of the future. And there is good ground for predicting that other crises, more devastating, will return with rhythmic regularity, until science takes the place of rule of thumb and the untrammeled acquisitive instinct. Herein lies the problem: How to go forward along lines already made clear by the lamp of experience and engineering rationality?

PLANNING—OUR ONE SOLUTION

When the question is asked: What shall be done? three answers come at once, the easiest at the outset naturally, for all love ease. First there is the answer: do nothing at all; return to laissez faire. This is the counsel of despair; like the peasants of Europe in the presence of the Black Death, we should lie down and accept fate. Besides being repugnant to reason, the philosophy of laissez faire has been tried and has failed to fulfill its promises. It is also obsolete, having been abandoned by technology and business enterprise. Condemned by experience as a pledge of security and prosperity, it cannot be revived; children burned and blackened in that fire will not return to it again. Even if attractive as a theory, it has been rendered impossible by the march of events beyond the reach of any person, functionary, or class.

At the other extreme, we are offered a dictatorship—of politicians either in their own name or in the name of the proletariat. Both are a form of verbal legerdemain, but owing to their prominence in current discussion they deserve consideration. The former may be adapted to Italy with her meager resources and her vast mass of illiterate or semiliterate peasants; it may have improved slightly at least the economic lot of the Italian people—which is debatable; but to talk of forcing such an iron regime of despotism on the citizens of the United States is to betray a woeful ignorance of their history, their traditions, their ideas, and their willful way of life. It is to adopt the fanciful philosophy of the French revolutionists, who thought they had a creed good always, everywhere, and for everybody. To expect dictators who have never before managed anything as complicated as a chicken farm to manage a vast technological system of industry with success is to expect the impossible, even though evangelistic fervor be enlisted.

The same criticism applies with equal force to the Russian remedy. It has lately been associated with the concept of planning, but that was an afterthought and never would have been even partially realized had it not been for the technological assistance of Western capitalism. Nor is the Russian plan really a plan in the sense of a definite stereotype for action. For more than 10 years the Russian Government has pursued a zigzag course, trying one expedient after another; and it is still constantly changing the inner organization of its industrial machinery in a desperate effort to make it work efficiently. It has renounced one proletarian policy after another in order to make its wheels turn, and what will be the outcome of its labors either in terms of organization or performance, no one can vaguely guess.

One thing, however, is certain; it rules by tyranny and terror, with secret police, espionage, and arbitrary executions. The system may be adapted to a people who endured czarist despotism for centuries, but to suppose that it could be transported intact to the United States, even if deemed successful in its own bailiwick, is to ignore the stubborn facts of American life and experience—the long practice of self-government in towns, villages, and States, the traditions of personal liberty, the established public school system, and a thousand other elements that stand out like mountains in the American scene. If capitalism were cursed with all the evils ascribed to it by Communists (and it has plenty to its credit), still the American people, on a fair and free count, would vote 100 to 1 for keeping it rather than enslave themselves to the kind of political and economic despotism regnant in the land of the former czars. This does not mean, of course, that they will not soon see the necessity of recognizing the right of Russia to work out her own destiny and put her trust in the mollifying effect of reasonable intercourse rather than in barricades and blockades.

In the third place, we are offered palliatives. Some hopeful economists propose the 4- or 3-day week in industry, blandly overlooking agriculture, which would be called upon to pay the bill for that generous luxury, assuming that it is feasible for manufacturing. It is also suggested that children be kept in school until they are 21 years old. This scheme ignores the fact that thousands of children do not want to be in school and, in truth, should not be there, after they are 15 or 16 years of age. Were the idea practicable, its execution would be demoralizing to millions of young people, unless the whole system of education were geared into a planned national economy. Standing alone, the proposition is absurd.

Under the head of palliatives come schemes for elaborate public works, especially to employ the idle in times of depression. Within limits such a building program is undoubtedly desirable, but it has perils, for it may withdraw millions and billions from fruitful capital investments and waste them on enterprises which add nothing to the Nation's economy except expenses for upkeep. The history of Federal waterways appropriations affords a tragic warning. Finally, there are various projects of insurance. Here, too, is a device of restricted utility. Governing persons may prefer to give doles to idle working people rather than to have them upset the fair pageantry of state, but the practice extended over long periods of time is ruinous to economy and morals. It represents the imbecility of defeatism. Besides, it displays the kind of intellectual cowardice which led the Romans to seek safety in supplying bread and circuses to the pullulating multitudes of the Eternal City. It is a foe of, not a substitute for, planned economy.

In the fuller realization of that type of economy, the stubborn heritage of American civilization must be kept in mind. Planning cannot ignore the human elements in the situation—the traditions of personal liberty (though often violated), the inventiveness and experimenting spirit of individuals, long-continued institutions of local government, ways of living, standards of life, and easy-going democracy of customs. It must conserve the dynamics of enterprise which has been so marked in the conquest of this continent. It must reward efficiency from the top to the bottom—a truth which the Russian Government is learning by bitter experience. It must leave wide areas of life and economy open to ingenuity. It must reckon with the resolve of vast masses to have more than the minimum subsistence now tolerated by millions in Europe and the Orient. It must avoid the redtape and sterility so common to large government undertakings—

though not so common as often imagined in interested quarters. It will lop off the deadwood of our futile plutocracy, so sinister in its influences on politics, culture, and rational living, without at the same time destroying the prudence of husbandry.

Planning on a large scale in these circumstances, and in fact in any circumstances, is a hazardous industry, but it must be faced, and attempts must be made to cut a way into the dim future under such light as we have. It is not given to any mind to conceive a blueprint of the whole field, and the present project is submitted with the thought that it may be more of a target for concentrating fire than a beacon to the lampless. Yet in human affairs a target has its utility. As James Madison explains in the Federalist, "it is impossible for the people spontaneously and universally to move in concert toward their object"; hence in time of stress and strain changes must be "instituted by some informal and unauthorized propositions made by some patriotic and respectable citizen or number of citizens." In this spirit the following plan is sketched to the limits of the space allowed.

A National Economic Council

The first step in the program is the institution of a National Economic Council, under the authorization of Congress. In organizing the membership of this Council, Congress will take into account all the great industries which have reached a high degree of concentration or would be easily consolidated were it not for the hampering barriers of the antitrust acts. The groups thus affiliated will certainly include economic agencies concerned with transportation, communications, fuel (oil, gas, and coal), iron and steel, lumber and building materials, electrical utilites, textiles, packing, and perhaps a few others. Also represented on the Council will be the several organizations in agriculture, wholesaling, and retailing. In addition, labor, organized and unorganized, will have its spokesmen. The exact weight to be assigned to each element will be a matter of great delicacy, but criteria can be evolved and in the process the experience of Germany with economic councils may be studied with profit.

In short, there will be established for the fundamental industries of the country—covering the prime necessities of food, clothes, and shelter—a small national body charged with the function of coordinating these divisions of economy and working out the project of their inner relations—financial, operative, and distributive. At the outset it will serve as a kind of economic convention, like that of 1787, to draw up an economic program to be submitted to the country for approval. It will naturally propound any changes in the Constitution and laws deemed necessary for the realization of planned economy.

To facilitate this immense operation, the Sherman and Clayton Antitrust Acts will be repealed. All industries included in the National Economic Council, and other industries not yet ripe for affiliation but approaching a high degree of concentration, will be declared to be national public service enterprises "affected with public interest" and subject to the principles of prudent investment and fair returns. In all this there is no departure from concepts now well established in American law. Billions of dollars worth of gas, railway, communications, and electric property is already within the scope of this declaration. The Federal Coal Commission, which examined the coal problem in 1923, reported that the mining of anthracite was "affected with public interest." In sustaining an act of Colorado pertaining to strikes and lockouts in such business undertakings, a State court declared years ago:

> We must take judicial notice of what has taken place in this and other States, and that the coal industry is vitally related, not only to other industries, but to the health and even the life of the people. Food, shelter, and heat before all others are the great necessities of life and in modern life heat means coal.

Well may the informed commentator, R. E. Cushman, add: "This is a line of reasoning which raises the query whether the courts may not yet come to the point of defining businesses affected with a public interest in simple terms of human necessity." Whatever the courts might say with respect to such a principle, it would be supreme if established by constitutional mandate. At one stroke the billions of capital now within this category will be widened to cover all enterprises fundamental to a high standard of American life, and the process of regularization, standardization, accounting, and control can be immediately set going. If a great deal of water went under the bridge, it could be later squeezed out painlessly by inheritance taxes, and the proceeds devoted to amortization of capital.

Associated with the National Economic Council will be a Board of Strategy and Planning, with approriate divisions, each headed by a production engineer. Here points of reference can be found in the War Industries Board and other Federal agencies created during the titanic effort to mobilize men and materials for the world war. The prime function of the Board of Strategy and Planning will be to make a survey of the resources and productive facilities of the country and forecast the production of consumers and capital goods, starting with obvious needs and proceeding to the possible boundaries of wealth creation under a system of efficient technology.

After this survey will come an allocation of productive and distributive activities with respect to the requirements of the plan. Procedure here will be in keeping with that already followed by large corporations in the United States—simply on a vaster scale and subject to economic, not legal, restrictions. The central concern will be not only the maximum output of goods in each division, within the limits of constantly expanding requirements, but also a steady raising of the standard of life by increasing wages and reducing prices. The tempo of the productoin machine will be, as our philosophical engineer, Ralph E. Flanders, says, "a question of values. As we value goods more and leisure less, we will lengthen our workdays. As we value leisure more and goods less, we will shorten them."

Closely affiliated with the Board of Strategy and Planning will be the Bureau of Standards in Washington, which will be strengthened by a concentration of industrial research agencies, as far as centralization will work for the elimination of duplications. Whenever it is necessary, for industrial or geographical reasons, to attach research laboratories to particular plants or, as in the case of agriculture, to experiment stations established with reference to climate and soils, there will be a planning and allocation of work at the center, under a planning staff, with a view to intense specialization and the solution of problems with the least motion. In connection with its work, the

Bureau of Standards will extend its present activities to include the standardization of all commodities produced under the jurisdiction of the National Economic Council; and goods produced outside of that jurisdiction will be subjected to the same tests as to weights, measures, composition, and quality. These will be, of course, the fundamental goods. A large part of so-called quality goods, calling for distinctive taste and esthetic characteristics, will continue in private hands, but with the decline of the plutocracy the production of articles for the demimonde will fall off.

Syndicated Corporations

So much for the general overhead of the new order of technological efficiency. Now let us turn to the internal structure of the great industries associated with the National Economic Council. Each will be a syndicate of affiliated corporations, in the form of a holding company, analogous to the present Electric Bond & Share Co., with large directorial and service powers. Perhaps in time a closer union will be effected, but the more freedom at the bottom the better for initiative and prompt action.

The syndicate will have its own board of strategy and planning, geared into the grand Board of the National Economic Council. The syndicate will consist of divisional or geographical corporations, or both, as the case may be, and the various plants under each corporation will be operated by corporation managers. Operating standards and efficiency tests for all plants will be set by syndicate production engineers, and competitive principles will be established, with national service medals and graduated bonuses as rewards for valorous soldiers of the forge and lathe. Since the profits of each syndicate, as a public utility, are to be limited, such surpluses as may arise will be due mainly to unexpected efficiency, and will be divided into two parts: one to go to bonuses and the other to reserves for contingencies, including unemployment arising from accidents, temporary shutdowns, changes in machinery, crop failures, and depressions, if any.

In the precise form proposed for each syndicate and corporation, there will be nothing foreign to American experience and practical achievement. Numerous examples are to be found on every hand. There is, for instance, the Inland Waterways Corporation under the management of the War Department, which operates fleets of vessels in the carrying trade between Minnesota and the Gulf of Mexico, as well as along the gulf from Alabama to New Orleans. Though a business concern making regular charges for its service, it is entirely public in nature, the Government of the United States holding all the stock in it. Another illustration is afforded by the Federal land banks, in which the Government owns part of the stock and closely supervises the issue of bonds. Possibilities are to be found in the limited-dividend corporations established for housing projects under the laws of New York.

Hints for development may also be drawn from the proposed corporation to take over transit companies in New York City, involving property worth approximately a billion dollars. Under this scheme the outstanding stocks and bonds are to be transformed into other securities, bearing a low rate of interest, and the amalgamated concerns are to be operated by a quasi-public directorate representing the city and the constituent companies.

From fragments gathered from holding companies and organizations mentioned above, illuminated by imagination, ideal forms for the syndicates and corporations to be established under the National Economic Council can be readily brought to blue print, without violating a single American economic tradition. Indeed, a far more tender regard could be paid to stock and bondholders than is usual in cases of bankruptcy and reorganization under private banking auspices.

Now let us consider the problem of financing. In the beginning, the financial readjustment necessary to the establishment of each syndicate or corporation might be left to private arrangement, as in the case of railway and utility enterprises under Federal and State commissions. Principles conceived in the public interest with due respect to private rights are now a part of the laws of the land. Since the new syndicates to be organized under the National Economic Council will be public utilities, it will be relatively easy to work out the financial readjustment on the basis of prudent investment and fair return. In time, however, it may be found desirable to reduce the capital charges by substituting consolidated first mortgage bonds drawing 3-percent interest, gradually extinguishing the outside stockholding groups, and providing safe investments for small savings.

Doubtless, as indicated, a lot of water would flow into the capital setup, causing a huge outcry among political democrats, but since the water could be effectively reduced by taxation, it would be better to allow a generous freedom than to stall a grand plan in a quarrel over details. As a part of the program, it would contribute to efficiency if a large amount of stocks were kept afloat, with graduated dividends based on efficiency in operation and production, especially if these stocks were distributed among the directors, managers, and employees of the several corporations. Thus the private stockholder, who ordinarily does nothing for industry but sign proxies and grumble when dividends are reduced, would be eliminated in the end, and vested interests turned over to engineers and workers, leaving the bondholder with his 3 percent and liable to a stiffer inheritance tax than is now imposed. It would also be advantageous if the proceeds from inheritance and income surtaxes were all turned over to capital account for amortization purposes or new construction, leaving the politicians to raise their current revenues from other sources.

From what has been said it is apparent that no confiscation of property is contemplated here. On the contrary, the examples set by the abolition of $3 or $4 billion worth of property in slaves during our civil conflict, and the destruction of millions invested in the liquor business by prohibition, are put aside as highly undesirable methods of operating in a technological society. It is one thing for peasants to seize land belonging to their lords and go ahead tilling it as of old; but the arbitrary seizure of property employed in complicated technical operations is an entirely different proposition. An acre of land is an acre of land, and corn or potatoes are easily produced on it. A factory or railway is, to be sure, a collection of objective utilities, but the amount of wealth it can turn out depends fundamentally on the interest, skill, and loyalty of those who manage and operate it. The loss of a few months of chaos may be equal to the entire capital value.

It has been estimated that the entire productive outfit of an industrial nation could be reproduced in 10 years.

Everything hangs on management. Violence and tyranny cannot create a spinning machine or operate one after it is built. A few years of civil conflict in a technological society, even if carried on by political methods only, might well destroy more wealth than could possibly accrue to present vested interests under the generous reorganization plan suggested above. Caveman methods on the part of capital and labor in a technological civilization indicate a lack of commonsense, if not a want of humor, to say nothing of justice and humanity. If the American economic system could be run full blast on principles of efficiency for 5 years, the surplus alone would probably extinguish half of the capital obligations, especially if coupled with a moderate use of the taxing power.

FARMING

Since American industries are far advanced along the road of technology and concentration, it is not necessary to attempt here a closer picture of the syndicate plan proposed above. But something must be said about agriculture, which is still in a primitive state of development in large sections of the country. Agriculture ought to be especially emphasized in connection with national planning, for city dwellers are woefully ignorant of the land and seem to care little for the conditions under which their basic industry is carried on. Yet it is fundamental. If agriculture perishes, as in parts of China, civilization sinks down in ruins. Rome likewise furnishes an example; our scholars well know the intimate relations between the decay of Roman agriculture and the decline of the Empire. There is also another side to the problem. The overgrown urban agglomerations of the United States, with their millions pounding pavements, toiling listlessly in poorly lighted offices and factories, and living in sunless tenements need more of the country, not less. And a rational system of industrial planning will dissolve the absurd and unwholesome slum areas of cities, carry industries out into air and sunlight, and institute a fine balance of rural and urban life.

But is it possible to plan for the individualistic anarchy of American agriculture? There are great difficulties in the way; yet they are not insurmountable to intelligence and will. Governor Roosevelt, of New York, propounded last winter in a statesmanlike manner, the beginnings of an attack on this problem. Recognizing the fact that immense areas of marginal land are now being tilled, yielding only poverty and distress to the tillers, he proposed a survey of all the agricultural resources of the State, a classification of land according to fertility and uses, and the reforestation of enormous sections now under futile cultivation. Fair compensation would be made to the owners and a recovery of outlay effected in the long run by the production of lumber. Collaterally, a great mileage of back-country roads would be closed, materially reducing the burdensome taxes now imposed on farms for maintenance. The abandonment of dirt roads could be accompanied by the extension of improved highways throughout the fertile regions according to a rational plan, thus providing rapid transportation to market and raising the standards of country life. Along the improved highways, high voltage lines could be built for the transmission of electricity, furnishing cheap power and light for farms—power to facilitate production and light so indispensable to civilized living.

Under the Agricultural Syndicate, to be formed under the National Economic Council, plans along the above lines will be worked out for the whole country and carried into execution through Federal and State cooperation. This would, of course, be merely a start, important no doubt, but still a preliminary.

With regard to the millions of individual farms and plantations under cultivation, all is not formless and void. Powerful associations in cotton growing, wheat raising, dairying, fruit culture, and other branches are operating today in connection with the Federal Farm Board and the Department of Agriculture. Standardization, the introduction of scientific methods, and cooperative marketing are in rapid process of development and, great as are the difficulties ahead, they are by no means baffling.

But this is not enough. A more thoroughgoing rationalization is demanded by the exigencies of our industrial civilization. Efficiency calls for a concentration in certain branches of agriculture as in manufacturing and transporting. To proceed on the assumption that wheat can be profitably raised on small farms, costing sometimes $250 an acre, in competition with gigantic enterprises such as T. D. Campbell conducts in Wyoming or Hickman Price in Texas, is to pursue a delusion bound to be ruinous in the end, no matter how much money the Farm Board pours into the bottomless wheat pit. It simply cannot be done and heroic measures will be necessary to meet the situation created by technology in agriculture.

What is the way out? At best it is dimly seen, and only guesses can be made here. Yet one thing is certain: The ruthless conquest and exploitation of peasants by the urban proletariat practiced in Russia is impossible in the United States or, if possible, a violation of every human decency cherished by the American people. Theer are, however, methods of collective action which are compatible with individual rights and long-settled traditions. In the first place, the syndicate and corporation idea to be applied in industry is applicable to important branches of agriculture—is, in fact, already applied on some scale. Hence the Syndicate of Agriculture, established under the National Economic Council, will proceed as a public utility to acquire large areas of land which cannot be profitably tilled by historic methods and will work them by machinery under special corporations. Individual farmers, without surrendering their local interest, can come into a corporation on specific conditions, just as individual manufacturing plants can be taken into an appropriate industrial corporation.

In addition, one large agricultural corporation in the national syndicate could undertake large diversified farming. It might acquire by purchase thousands of farms in different parts of the country and tie different branches into one enterprise. For instance, it could operate corn farms in Iowa and dairy farms in Connecticut, shipping its feed by the trainload from the West to central depots in the dairy districts, employing improved highways in detailed distribution. Agents stationed at central points could supply standardization and efficiency methods and exercise supervision over individual dairymen. Machinery could be used cooperatively in convenient districts; insurance and other services rendered. Farmers owning their land might come under the scheme, keeping individual initiative and yet deriving the benefits of a collective economy.

In conjunction with the industrial syndicates a distribution of power and minor industries can be made in such a way as to employ farmers during the winter season, supplying local and even national necessities, perhaps wooden articles from neighboring forests. As a further guarantee of efficiency, the system of bonuses for performance, prevailing in industry, will be applied to agricultural corporations. As far as the system works, agriculture will be brought under the regime of planned economy.

Marketing and Foreign Affairs

On the marketing side immense difficulties will be encountered and it will be the duty of the marketing syndicate under the National Economic Council, representing wholesaling and retailing interests, to work out the plan. Chainstores and mail-order houses point one way of development. The establishment of great storage houses and refrigeration plants, with branches, and the integration of those now under Federal and State supervision will eliminate wastage in haulage and handling, curtail the sphere and profits of middlemen, and open the direct routes between producers and consumers. Here, too, as in other divisions of planned economy, individual merchants may affiliate themselves with the marketing syndicate's corporations. In the end, however, with respect to all staples, the area of this hazardous occupation will be materially restricted, without closing the doors upon merchants dealing with specialties and objects of esthetic enjoyment.

Now we come to foreign affairs, which, strictly speaking, is a department of industry and marketing. Since an immense domestic market will be opened under national planning and attention will be directed primarily to the enlargement of this market, the feverish and irrational methods of unloading and dumping goods on foreign countries will be reduced to a minimum, if not discontinued entirely. The industrial countries of the world cannot live by taking in each other's washing. Here also is the most fruitful source of international rivalries and wars—the source of most burdens for diplomacy. Once rationalized, foreign exchange could proceed on the basis of reciprocal trade in necessities not well supplied by domestic enterprise.

Under the plan here proposed the foreign commerce of the United States will be carried on by a syndicate of exporting and importing corporations organized along the lines now laid down in the Webb Act of 1918 for the export trade. In this field as elsewhere there will be nothing new—merely an extension of principles and practices well established under prevailing legislation. The purpose of the syndicate, however, will not be to force firearms and trinkets on African savages, but to carry on a rational trade with other countries in such a way as to secure, on fair and favorable terms, the goods needed by the United States. It will not proceed on the assumption that the nation can get rich by dumping goods abroad at less than the cost of production. The syndicate will also control the issue of foreign securities in the United States. It will stop the reckless habits of financiers in making loans to irresponsible governments to be wasted in unproductive enterprises—a custom ruinous to American investors and a curse to the peoples of the borrowing countries. Naturally the syndicate will also be a powerful aid to diplomacy, bringing the reason of commodity exchange to bear on the vagaries of ministers plenipotentiary.

As a phase of foreign policy associated with trade, American diplomacy will proceed on the basis of the Kellog Pact. It will recommend adherence to the World Court. It will frankly cooperate to the fullest extent in the economic conferences and conventions of the League of Nations, as it does now in a furtive manner. It will advise a cancellation of European debts on conditions that the armed forces of the world be brought down to a police basis. It will abandon the Coolidge theorem that the Army and Navy of the United States must be big enough to protect any American citizen who wants to make 10 percent on the bonds of Weissnichtwo or sell corn flakes, shoe horns, and collar buttons to the inhabitants of the world willy-nilly. For the policy of dominating the world, American diplomacy will substitute that of strict and adequate national defense—defense of the land and people of the United States—by universal military service, if Europe stubbornly refuses to come to terms on disarmament.

AMERICA TOMORROW

All this, it may be said, is too large, too general, too remote, and offers no help in the present emergency. That complaint may be faced, although it is sometimes better to suffer in an emergency than to do more harm in an effort to get out of it. While the program outlined above is being put into exceution, expedients may be devised in line with its provisions.

Let the President summon Congress in a special session to organize immediatley two of the syndicates to be ultimately fitted into the grand scheme—one for agriculture and the other for building materials and housing. The first of these, with the consent of State legislatures, will begin immediately to carry into execution in each State the plan proposed by Governor Roosevelt, of New York, alluded to above; namely, buying up marginal land, reforesting, constructing highways, and building electric transmission lines (with or without the cooperation of private companies as circumstances may dictate). In each State the syndicate will also proceed to organize one or more agricultural corporations to establish corporate farming as outlined above on a large scale, in that way covering thousands of acres of public and private land with grand model enterprises.

The building materials and housing syndicate will proceed at once to a survey of the sum and submerged areas of great cities, make regional plans, and prepare a gigantic housing program. It will entrust construction to limited dividend corporations in each locality or, where this is not feasible, form special corporations for the purpose. It will enroll an army of 2 or 3 million men to tear down and build cities decent to live in and delightful to the eye, summoning to its aid the best architectural talent in the country. As each housing project will be directed by a special corporation, matters of management, rentals, and ownership will be left to local circumstances. Until the general system of productive and distributive economy is organized, there will be many difficulties and hazards, but after that consummation housing will be geared into the development of industry. It should then work out smoothly.

These two undertakings will be financed by freedom bonds and sold with the zeal of war issues. And they will sell. If the hysterical governments of Europe should get into another war and the United States were drawn into the conflict, who would protest against the sale of a hundred billion dollars' worth of consols to pay for killing 10 million boys? Not a single patriot. Then will it be said that we cannot float one-tenth of the sum, if necessary, to save 5 or 6 million American citizens from the horrors of unemployment and pauperism—and enrich the country at the same time by adding grand capital works, wealth-creating enterprises? After a war, the people—that is, plain citizens—are poorer than before; after this heroic national effort, all will be richer in goods—and still more important, in patriotic spirit. It ought not to be difficult to arouse enthusiasm for such a cause.

Let the worst be said. Let it be prophesied that these agricultural and housing works will not "pay." Doubtless some money would be lost, but in the end there would be millions of acres of model farms and thousands of houses fit to live in. If the scheme fails, the properties can be sold on better terms than, let us say, unused munition dumps and the boats of the Emergency Fleet Corporation. Should they all fall into ruin, still they would be the noblest monument to human endeavor ever erected since time began, making America at doomsday unique among the civilizations of the earth.

But the project is not utopian; it involves the extension of practices already in effect; and brains and materials are available. If such a program were officially announced, its immediate effect would be to give the people of the United States assurance for the future; they would begin to spend where they now hoard against direful uncertainty; and the outcome would be confidence in the will and power of the Nation.

In summary, the scheme here outlined is no foreign concoction or importation. It is a purely native product. Even now it lies partly completed before us. It may be merely American destiny foreshadowed. In any case, it makes no break with American institutions and traditions. On the contrary, it integrates and accelerates processes already unfolding under our very eyes: according to the estimates of Gardiner C. Means, 200 corporations, managed by fewer than 2,000 directors control between 35 and 45 percent of the business wealth of the country, and they are growing 3 times as fast as the small corporations. Are they to be great aggregations of wealth selfishly administered or public service corporations operated on a basis of prudent investment and fair return? That is a fateful question, soon to be asked in tones of thunder, even if planned economy be rejected as chimerical.

But it is not chimerical. It is practical, for America has the intelligence, the organizing capacity, the engineering skill, the material endowment, and above all, men and women willing to make immense sacrifices for their children and their children's children. They have faith in the mission of their country. And in due time America will arise, shake off her lethargy, and put forth powers like those of our ancestors who founded this Nation and conquered this continent. If to the aged of little hope, planned economy appears remote and impossible, it must be said that it is not as remote and impossible as the very United States today would seem to the little band of men and women who landed under wintry skies at Plymouth three centuries ago. To take counsel and to dare, again and yet again, this is the true American spirit, and out of daring will come achievement far beyond our dim, chill imaginations.

MESSAGE TO CONGRESS, DECEMBER 8, 1931, BY HERBERT HOOVER

In meeting the problems of this difficult period, we have witnessed a remarkable development of the sense of cooperation in the community. For the first time in the history of our major economic depressions there has been a notable absence of public disorders and industrial conflict. Above all there is an enlargement of social and spiritual responsibility among the people.

The strains and stresses upon business have resulted in closer application, in saner policies, and in better methods. Public improvements have been carried out on a larger scale than even in normal times. The country is richer in physical property, in newly discovered resources, and in productive capacity than ever before. There has been constant gain in knowledge and education; there has been continuous advance in science and invention; there has been distinct gain in public health. Business depressions have been recurrent in the life of our country and are but transitory * * *.

The emergencies of unemployment have been met by action in many directions. The appropriations for the continued speeding up of the great Federal construction program have provided direct and indirect aid to employment upon a large scale. By organized unity of action the States and municipalities have also maintained large programs of public improvement.

Many industries have been prevailed upon to anticipate and intensify construction. Industrial concerns and other employers have been organized to spread available work among all their employees, instead of discharging a portion of them. A large majority have maintained wages at as high levels as the safe conduct of their business would permit. This course has saved us from the industrial conflict and the disorder which have characterized all previous depressions.

Immigration has been curtailed by administrative action. Upon the basis of normal immigration the decrease amounts to about 300,000 individuals who otherwise would have been added to our unemployment. The expansion of Federal employment agencies under appropriations by Congress has proved most effective.

Through the President's Organization for Unemployment Relief, public and private agencies were successfully mobilized last winter to provide employment and other measures against distress. Similar organization gives assurance against suffering during the coming winter. Committees of leading citizens are now active at practically every point of unemployment. In the large majority they have been assured the funds necessary which, together with local government aids, will meet the situation. A few exceptional localities will be further organized.

The evidence of the Public Health Service shows an actual decrease of sickness and infant anl general mortality below normal years. No greater proof could be adduced that our people have been protected from hunger and cold, and that the sense of social responsibility in the Nation has responded to the need of the unfortunate * * *.

We must avoid burdens upon the Government which will create more unemployment in private industry than can be gained by further expansion of employment by the Federal Government. We can now stimulate employment and agriculture more effectually and speedily through the voluntary measures in progress, through the thawing out of credit, through the building up of stability abroad, through the home loan discount banks, through an emergency finance corporation and the rehabilitation of the railways and other such directions.

I am opposed to any direct or indirect Government dole. The breakdown and increased unemployment in Europe is due in part to such practices. Our people are providing against distress from unemployment in true American fashion by a magnificent response to public appeal and by action of the local governments * * *.

If the individual surrenders his own initiative and responsibilities, he is surrendering his own freedom and his own liberty. It is the duty of the National Government to insist that both the local governments and the individual shall assume and bear these responsibilities as a fundamental of preserving the very basis of our freedom.

Many vital changes and movements of vast proportions are taking place in the economic world. The effect of these changes upon the future cannot be seen clearly as yet. Of this, however, we are sure: Our system, based upon the ideals of individual initiative and of equality of opportunity, is not an artificial thing. Rather it is the outgrowth of the experience of America, and expresses the faith and spirit of our people.

It has carried us in a century and a half to leadership of the economic world. If our economic system does not match our highest expectations at all times, it does not require revolutionary action to bring it into accord with any necessity that experience may prove. It has successfully adjusted itself to changing conditions in the past. It will do so again.

The mobility of our institutions, the richness of our resources and the abilities of our people enable us to meet them unafraid. It is a distressful time for many of our people, but they have shown qualities as high in fortitude, courage, and resourcefulness as ever in our history.

With that spirit, I have faith that out of it will come a sounder life, a truer standard of values, a greater recognition of the results of honest effort and a healthier atmosphere in which to rear our children. Ours must be a country of such stability and security as cannot fail to carry forward and enlarge among all the people that abundant life of material and spiritual opportunity which it has represented among all nations since its beginning.

[From "Potentials of the American Economy," Harvard University Press. This paper was presented on November 11, 1932]

THE IMMEDIATE UNEMPLOYMENT PROBLEM

(By Sumner Slichter)

My discussion of the immediate unemployment problem will fall into two parts. First, I wish to focus attention upon the problem which will confront us between now and next summer. Then I wish to shift attention to the problem that we shall face during the next 2 or 3 years and perhaps longer.

The number of unemployed now approximates 11 million, or about one-fourth of the population normally in gainful employment. In addition, roughly half of the employed are working only part time. It is inconceivable that between now and the end of the winter there will be a sufficient revival of business to absorb a large fraction of the unemployed. This is particularly true in view of the fact that a substantial expansion of demand could be met simply by increasing the working hours of the men on part time. Despite all that we might do to make jobs by promoting business revival, it is plain that the problem which immediately confronts us is primarily one of providing relief.

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Extent of the Relief Burden

How great is the relief burden likely to be? The number of the totally unemployed is at least one-fourth greater than a year ago, and the volume of unemployment is at least one-third greater. The proportion of the unemployed who have exhausted their resources and the resources of their friends and relatives is rapidly rising. This is demonstrated by the fact that nearly half of the persons now seeking relief from welfare agencies in New York City have never before sought such help.

The record of relief throughout the depression indicates that expenditures have roughly doubled each year. Perhaps this geometric progression will not continue. Nevertheless, it is well to remember that forecasts of the relief burden have almost invariably been too low.[1] December 1932 is not far away, and it should be possible to estimate with some accuracy the probable load for that month and to compare it with that of a year ago. Last December the number of families receiving relief in Chicago was 99,293. For December 1932 the number is estimated at 164,000. In Cleveland, in December 1931 there were 18,978 families on relief; this December it is estimated there will be 34,775. In Cincinnati, 13,203 families were aided in December 1931; for the coming December, the estimate is 24,975. In New York, where 46,500 families are now under the care of the home relief bureau, it is estimated that approximately 46,000 additional families, as a minimum, will have to be provided for during the winter of 1932–33. On the basis of this and other evidence it seems safe to conclude that the relief needs of this winter will be approximately twice those of last winter.[2] They may be much more.

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[1] A fairly typical experience is that of Chicago, which late in 1931 undertook to raise $10,500,000 with the expectation that it would last until the fall of 1932. The fund was exhausted early in February 1932.

When I point out there is bound to be a large increase in the relief load, let me remind you that the standards of relief have been shockingly low. Shoes and clothing are given only in extreme cases, and in mose cities rent is paid only on eviction. Allowances for a family rarely average more than $5 a week, and allowances of $3 and $4 a week are common. In many rural communities the standards are lower. Some counties in Illinois are giving no more than 6 or 7 cents a person per day. Many persons in dire need obtain no relief whatever—partly because false pride prevents them from making application, and partly because inadequate resources compel the welfare agencies to refuse thousands of worthy cases. For over a month last spring, the New York City Home Relief Bureau accepted no new cases. At that time the Bureau had a waiting list of over 19,000.

RESOURCES OF LOCAL AGENCIES DIMINISHING

Up to the summer of 1932, practically all the relief was provided by local agencies, either public or private. The proportion of the burden borne by public and private agencies has varied widely among different communities, but totals from many cities, indicate that about three-fourths of the relief has come from public agencies and about one-fourth from private. Only eight States had given help in substantial amounts, and the assistance by the Federal Government was negligible. The ability of the local agencies, both public and private, to bear the burden is steadily diminishing. Shrinking private incomes and heavy increases in income taxes are reducing both the willingness and the ability of individuals to contribute to charity. Noteworthy is the fact that the Gibson Committee in New York, which last year raised $18 million, is this year attempting to raise $15 million. Last year Cook County raised $10.5 million from private donations; this year the goal is $7.5 million. As a general rule the goals of community chests in 1932 are below those in 1931.

The financial difficulties of the private agencies are compelling them to withdraw as far as possible from pure unemployment relief work. This increases the burden on the public agencies. But the ability of the cities and the counties to raise funds by taxation is shrinking, because about nine-tenths of their income is derived from the taxation of real estate which, even before the depression, was heavily overtaxed relative to other sources of income. Falling rents and a rising percentage of vacancies are steadily reducing the ability of real estate to bear the burden of relief. The decrease in rents varies from place to place, but it is rare to find a city in which rents are not at least 20 percent below those of 1929. The drop in rental income is, of course, much greater.

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[2] Other estimates indicate that this general conclusion is conservative. In Dayton, Ohio, for example, the number of relief families in December 1931 was 5,083; for December 1932 the number is estimated at 11,000. In Columbus, Ohio, 4,136 families were aided by the principal relief agencies in December 1931. The same agencies estimate that they will have 12,600 families on their relief rolls this coming December. In Stark County, Ohio (which includes the cities of Canton, Massillon, and Alliance), the families on relief are expected to increase from 5,692 in December 1931 to 10,799 in December 1932. The reports to the Children's Bureau of the U.S. Department of Labor, covering the relief activities of 748 agencies or divisions of departments in 125 cities, show an increase in the number of families aided from 333,720 in August 1931 to 731,394 in August 1932.

All this is reflected in the mounting tax delinquencies. Last year Detroit imposed a levy of $76 million, of which it failed to collect $18 million. Pittsburgh had a levy of $22.59 million, of which over $3 million was delinquent. In Cleveland nearly 19 percent of the county taxes and about 56 percent of the special assessment taxes are delinquent. Particularly important is the fact that ability to give relief has diminished most of all in precisely those communities where unemployment is greatest. For a few months, relief may be financed by borrowing; but city after city has now reached the point where further borrowing is impossible.

This, then, is the situation that we face this coming winter: relief needs, even on an inadequate basis, will double those of a year ago. Local resources will be no greater, and in the very places where unemployment is worst and the need is greatest, they will be much less. How should this problem be met?

Expansion of Public Works

Throughout the depression it has been urged that unemployment be relieved by the expansion of public works. Shortly after the stock market crash, President Hoover urged this policy upon the States and municipalities, and the Federal Government has practiced it on a modest scale. In the fiscal year 1930–31 the outlay for Federal construction was about one-third more than in 1929. In 1931–32 there will be another increase, so that in this year the total outlay for Federal construction may be approximately double that of 1929. Federal construction, however, has normally been only a small part of all public building, and the cities and States, on the whole, have failed to heed Mr. Hoover's advice to expand construction. On the contrary, in 1931 they reduced their building so much that, despite the increase in Federal construction, the total outlay for all public works in the country was substantially less than in 1930. (In 1930 the figure was $3.632 billion.) The preliminary estimates of Mr. Arthur D. Gayer for the National Bureau of Economic Research put the expenditures for 1931 at about $3 billion.) In 1932 came the collapse in the bond market which has practically prevented municipal financing. Simultaneously there has developed an economy drive which in some communities has amounted to hysteria. As a result, non-Federal public works have dropped from about $2.5 billion to about $800 million; and all public construction, local, State, and Federal, is not more than half the level of 1931. Thus, instead of reducing unemployment by expanding public construction, we find ourselves increasing unemployment by curtailing public works.

Undoubtedly many cities could achieve substatial savings by building now, when costs are low, rather than waiting until several years later when costs will be higher. Nevertheless, a bond issue today would mean higher taxes to the extent of the interest and amortization charges, and few communities, no matter how low their ratio of indebtedness to property values, are willing to impose any new burdens on the taxpayers. Furthermore, the market for municipal securities, though much stronger than formerly, is none too good.

To meet these two obstacles to an increase in public works, Congress has given the Reconstruction Finance Corporation $1.5 billion for loans on certain types of "self-liquidating" public or semipublic projects. The Corporation has been accused of being dilatory and unduly technical and meticulous in requiring that the letter of the law be observed. Whether or not these criticisms were once true, I do not believe that they are true today. Naturally it has taken a little time for the Corporation to build up an organization. This task, however, has been done rather quickly.

By the end of October, the Corporation had received 149 fairly complete applications for "self-liquidating" loans. Many of the applications were not eligible under the terms of the law or were not accompanied with proper supporting data. Indeed, a recent tabulation indicated that approximately half of the applications were not eligible and that many others were of doubtful eligibility. (The Corporation attempts to "salvage" projects which appear to have merit but which are not eligible in the particular form presented.) Up to November 1, the Corporation had made 24 self-liquidating loans totaling $135,433,500. Not 1 cent of this amount, however, had been spent and not a man had been put to work by it. This is not a criticism of the Corporation. On the contrary, to some extent it reflects the fact that the Corporation has granted loans faster than the communities have been prepared to use them.

But even if work were instantly started on all the projects for which the Corporation had authorized loans up to November, the number of jobs directly provided would be less than 25,000. The number of jobs that would be indirectly created is conjectural, but it would not bring the total up to 100,000. But there are 11 million unemployed. Possibly by next summer or a year from this winter, the loans of the Corporation may have a perceptible effect on employment. During this winter, however, they will have virtually none. They leave the relief problem practically unaltered.

SPREADING THE WORK

Another proposal for relieving unemployment which has attracted much attention is "spreading the work." More or less organized support for this plan goes back to the beginning of the depression, but last September a greatly intensified drive began under the leadership of President Teagle of the Standard Oil Co. of New Jersey. Mr. Teagle announced that the plan might put a million men back to work, and expressed the hope that it might eventually give jobs to 2 million.[3]

Spreading work has two aspects which should be carefully distinguished. Work may be divided as business drops, in order to prevent layoffs; or it may be divided in order to give jobs to persons who are now unemployed. Most instances of spreading work which have been reported in the newspapers are of the former variety.[4] The normal seasonal shrinkage in employment may be expected to increase the number of idle during the winter by at least a million. There is reason to hope that, by spreading work, a large proportion of these prospective layoffs will be prevented.

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[3] New York Times, Sept. 2, 1932, p. 1.

But what prospect is there that spreading work will positively reduce the 11 million unemployed? In manufacturing, the work has already been spread remarkably thin. For example, in 21 industries during August 1932, the National Industrial Conference Board reports an average working week of only 32.2 hours, with average weekly earnings of $15.35. Only four industries averaged 40 or more hours a week. With hours and earnings in manufacturing so low, how much thinner should work be spread?

Full-time employment appears to be most prevalent in banking, insurance, wholesaling, retailing, and public utilities. Consequently, these industries furnish the best opportunities to spread work. But despite the fact that the sacrifice is mainly borne by the workers, most employers are strongly opposed to taking work from their present employees for the purpose of giving jobs to men who are now unemployed. One reason is that managements are reluctant to incur the ill will which this step might arouse among their men. Another reason is that many enterprises, even after 3 years of cutting and economizing, are still carrying more employees than they really need. The low scale of compensation which prevails in both retailing and banking is a serious obstacle to spreading work, particularly in view of the fact that many workers who have full-time jobs are supporting relatives. It is a serious matter to reduce the working hours (and hence the compensation) of a $15-a-week clerk who may be the sole member in her family who has a job. In this connection it is interesting to observe that several of the Standard Oil companies, in cutting the hours of employees to 40 a week, are not reducing the compensation of employees receiving less than $100 a month.

At any rate, after careful inquiry I have found relatively few banks, insurance companies, stores, or public utilities that have divided work in order to make room for additional employees. In view of the obstacles to spreading work any thinner than it is spread today, we shall be fortunate if the movement to share the work succeeds in preventing an increase in unemployment this winter. It will be a miracle if the movement creates as many as a million new jobs before spring. But even such an unexpected accomplishment would leave 10 million men unemployed, which would be about one-fourth more than last winter. It is important to remember that much relief is necessary even for men who have part-time jobs. When a man is reduced to 2 or 3 days a week, any unusual expense means that he must have help from somewhere.

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[4] In San Francisco, where the "spread work" movement has been carefully organized and vigorously pushed, incomplete returns indicate that 4,000 more people are working today than would have had jobs if work had not been spread during the last few months. But about three out of four of these persons are workers who were saved from being laid off by spreading work, and only about one-fourth are persons who were unemployed and who were given jobs that were created by dividing the work. For this information I am indebted to Mr. Paul Eliel of the Industrial Association of San Francisco.

NATIONAL AID INADEQUATE

Public works, self-liquiding loans, and spreading work promise little help toward meeting the relief problem of this winter. What are we to do? Additional help is imperative. Where is it to come from?

One possibility is national aid. The Reconstruction Finance Corporation has been given $300 million to "lend" to the States and the local communities. How far will this go? At the Relief Conference in Washington during September, Mr. Promerene, Chairman of the Corporation, announced that he interpreted the law to mean that the $300 million should be made to last 2 years. As a device for encouraging the local communities to draw generously on their own resources, this statement is unobjectionable. But is there any real prospect that the $300 million will last 2 years? Last spring the Bureau of the Census made a study of relief expenditures by governmental and private organizations in certain communities during the first quarter of 1931. The communities included all of the larger cities and contained 60 percent of the country's population. They undoubtedly included a much larger fraction of the unemployed. During the first 3 months of 1931, these communities spent $73,757,300 for relief to families outside of institutions and for homeless men. At the rate of increase which seems to have occured, these communities must have spent about $140 million during the first quarter of 1932. During the first quarter of 1933, they will probably need about $280 million.

Let us assume that the local communities are able to raise as much for relief this year as last; if the increase in expenditures were to fall entirely upon the funds of the Reconstruction Finance Corporation, nearly half these funds would be exhausted during the first 3 months of 1933. These will probably be the worst 3 months of the year. Nevertheless, the evidence points to the conclusion that even if the local communities could maintain their expenditures undiminished, substantially all of the Reconstruction Finance Corporation's $300 million would be required before June 30, 1933, merely to meet the increase in the relief needs of these communities representing only 60 percent of the country's population. But the local communities as a whole will not be able to maintain their relief expenditures on the same scale as last year, and considerable relief must of course, be provided in the rural communities from which returns of relief expenditures are not available. Unless the standards of relief, already dangerously low, are to be substantially reduced, much more help must be given the local communities before next July than the $300 million which the Reconstruction Finance Corporation has available.

THE STATES MUST ACT

Where is this help to come from? The bodies which have been most delinquent in meeting the unemployment problem thus far have been the States. Only eight States have given relief in substantial volume. It is true that these States include many of the industrially important ones—New York, New Jersey, Pennsylvania, Ohio, and Wisconsin—but the record of the States as a whole is not good. The States can tap many sources of revenue which are not open to the cities, because it is exceedingly difficult for cities to raise money by any method other than taxing real estate. Furthermore, participation of the States in the relief work is particularly important because they are the logical bodies to raise the standards of local relief, to supervise the establishment of proper relief agencies in each city and county, and especially to see that small cities and rural communities, which have no organized charities and which have been exceedingly backward in extending help, are provided with organizations.

I am aware of the political difficulty in getting States to act. Unemployment is concentrated to a great extent in the cities; and the rural communities, hard hit by the drop in agricultural prices, are reluctant to permit the State's taxing power to be used to meet the need in the cities. This difficulty is accentuated in some States by longstanding differences between the cities and the rural communities over the use of the taxing power and by differences in the party control of State legislatures and municipal administrations. Finally, the economy movement may make the States reluctant to participate in unemployment relief.

Nevertheless, the States must be induced to act. How to get them to act is perhaps the most important aspect of the unemployment relief problem at this moment. The Emergency Unemployment Relief Act provides that Federal relief funds shall not be in lieu of money made available by the various States and their political subdivisions, but rather shall be supplementary thereto. The Reconstruction Finance Corporation has followed the policy of making grants for short periods and in limited amounts only, and of insisting that the States and the local communities make a real effort to help themselves.

For example, the Corporation has declined to grant further loans or assistance to the local communities of the State of Michigan unless the State contributes some money of its own. Temporary aid of $2.5 million to Detroit and to other communities until the first of December was granted on the understanding that additional funds will not be provided unless the State legislature makes an effort to raise funds within the State. The Corporation has insisted that the government of Illinois call a special session of the legislature to provide for relief. On November 4, in granting a loan of $5,462,265 to Pennsylvania, the Corporation urged in strong terms the need for further action by the State and its political subdivisions at the earliest possible moment, and announced that it would "hesitate" to provide further funds "until the State and/or its various political subdivisions have taken action to meet the emergency needs of the people."

Whether the Reconstruction Finance Corporation succeeds in stimulating the States to act must depend upon public opinion. The policy of the Corporation is bound to arouse intense criticism from diverse sources—from those who feel that relief should not be delayed or limited while governmental units battle over the allocation of the burden, and from many interests which oppose any increase in State taxes or any diversion of State funds from their present uses. Possibly the volume of criticism will be so formidable that the Corporation will capitulate before it. I hope, however, that the public in the main will support the Corporation in its efforts to induce the States to assume more responsibility for unemployment relief. Relief will be better organized and more efficiently administered, and the unemployed will be more adequately provided for, if each State establishes a relief board and provides it with some funds. Furthermore, if the States refuse to act, Congress will naturally be more reluctant to grant Federal aid for relief during the winter of 1933–34.

II

I have said that the immediate problem confronting us is primarily one of giving relief rather than of creating jobs by assisting the revival of business. But naturally it is important to do everything possible to accelerate revival. There is an enormous amount of postponed spending which will begin once revival is fairly underway. And even though revival could not greatly alter the relief burden this winter, it might substantially reduce the burden during the coming summer and the following winter. But so great is the lack of confidence, and so readily, in the present state of psychology, are proposals misinterpreted and misunderstood, that it is necessary to be exceedingly judicious in planning assistance to business. Nevertheless, there are several steps which the Government might take.

Aid Through Distribution of Cotton

Let me begin with a modest suggestion which would be at once a relief measure and a help to business revival. The purchasing power of many millions of Americans depends on the price of cotton. The price is low partly because of the enormous carryover of approximately 12 million bales. The faster we reduce this carryover, the more rapidly will the price of cotton recover and the greater will be the purchasing power of a large part of the country. Last summer Congress gave 500,000 bales from the holdings of the Cotton Stabilization Corporation to the Red Cross for distribution in the form of cloth or garments for the unemployed. The Red Cross reports that its cotton will not suffice for more than one-quarter of the requests from its local chapters, and that the supply will be exhausted by about January 1933. The Cotton Stabilization Corporation still has about 400,000 bales of "stabilization cotton," and the cooperatives have an even larger amount. Surely it is ridiculous for the Government to hold cotton in the hope of ultimately recovering part of the purchase price, when millions of people are urgently in need of clothing and when the very retention of the cotton retards the recovery of business. Surely the least which the Federal Government can do to help the unemployed is instantly to give all of the cotton acquired in the course of "stabilization" operations to the Red Cross for distribution to the unemployed.

The original transfer of 500,000 bales permitted some of the cotton to be used to pay for the fabrication of the rest into cloth and garments. This greatly limited the relief to the unemployed, because far more cotton has been needed to pay for the cloth and the garments than is contained in the cloth and the garments themselves. I suggest, therefore, that the Government not only give its cotton to the Red Cross without delay, but also appropriate a sufficient sum to pay for the fabrication of the cotton. The fabrication should be done as work relief, subject to the restriction that the manufacturer should make no profit and that the hours of labor for the individual workmen should not exceed 32 a week. This arrangement would greatly increase the relief afforded by the cotton, and it would also accentuate the effect on the carryover; because when part of the grant is used to pay for fabricating the remainder, the movement of cotton into consumption is greatly reduced. In making the original grant, Congress stipulated that the cotton should be used only to purchase cloth or garments made entirely of cotton. It would be wise to relax this restriction and to permit some of the cotton to be traded for wool.

The British Debt

The two most important steps which the Government could take to accelerate the revival of business are (1) to revise the British debt settlement and (2) to settle its own budget problem.

One of the principal reasons why business enterprises are postponing commitments is because of uncertainty over price movements in the immediate future. A major reason for uncertainty over prices here is uncertainty over the future value of the British pound. Depreciation in the pound, which reduces the buying power and increases the selling power of Great Britain and all countries that base their currencies on the pound, tends to lower prices in all gold currencies. The present weakness in the pound is not entirely attributable to the prospective debt payment which falls due on December 15. It is partly seasonal and partly attributable to prospective settlements with foreigners who elected not to convert their holdings of the British war loan. Nevertheless, resumption of payments on the debt by Great Britain could not continue without putting the pound under pressure and thus threatening our own price level. Not only are the British payments large (about $190 million a year), but since they are in gold, the drop in prices has greatly increased the burden of making them. Exports of approximately 50 percent more commodities would be required for the British payments today than were needed when the settlement was negotiated. In addition, Great Britain's receipts from her debtors have been greatly diminished by the cessation of reparations payments from Germany and by the fact that her claims upon her Allies are payable in pounds instead of gold.

Much silly talk has recently come from Members of Congress and others to the effect that if our debtors do not pay, the American taxpayer must. So far as the British payments are concerned, this is ridiculous. Far more accurate would be the statement that for every dollar received from the British, the whole American people will pay many times over. In particular will American debtors and American cottongrowers and wheat raisers pay—debtors because the drop in our price level will make their debts more burdensome, and cottongrowers and wheat raisers because the prices of those commodities are likely to be dragged down more than others by further depreciation of the pound.

Probably the most important single step we could take to guard against a further drop in prices and thus to smooth the road to recovery would be to negotiate promptly a generous revision of the British debt settlement. Since negotiations and ratification take time, the moratorium should be extended until June 1934. If this is not done, at least Great Britain should be given the option of paying in goods or pounds instead of in dollars.

Reducing the Deficit

The Government's budget problem arises from the disappointing yield of the new taxes. Apparently the deficit for the current year will be well in excess of a billion dollars. Let me say emphatically that I am not in favor of attempting to balance the budget in the midst of depression. An enormous amount of nonsense has been talked on this subject during the last year. The Government deficit in a period of depression is valuable because Government borrowing is likely to produce inflation—or at least to offset in some measure the deflationary effect of the liquidation of private indebtedness. But if the deficit is too large and excites too much alarm, its net effect may be deflationary rather than inflationary, because apprehension over the fiscal policy of the Government may cause many business enterprises to postpone buying and, insofar as possible, to avoid commitments.[5] The unexpectedly large deficit which is developing this year seems to be having this effect. In order to gain the maximum inflationary benefit from the deficit, it is necessary, therefore, to reduce the deficit.

It makes a great deal of difference, however, how the deficit is reduced. Burdening the country with new taxes, at a time when taxation is already taking one-fifth or more of the national income, is not likely to help business. This is particularly true of taxes which are likely to fall temporarily or permanently on the working capital of business enterprises.[6] Consequently, the deficit should be reduced in the main by cutting expenditures rather than by imposing new taxes. The obvious exception is, of course, a tax on beer. If the industry is legalized, it can bear a fairly heavy tax and should bear it. But most estimates of the probable immediate yield from a tax on beer are much too high.

Suggested Government Savings

Time does not permit an analysis of the intricate problem of how expenditures might most advantageously be reduced. Approximately $150 million might be saved by transferring the Post Office to a public corporation, operated by a general manager subject to a board of directors who possessed authority to set whatever rates were necessary to cover costs.[7] But undoubtedly the country is not yet prepared to insist upon this step. Some savings could be achieved by bureau reorganizations and by conducting the operations of the Government more efficiently, but the amount which could be saved without sacrificing valuable work is small in relation to the deficit.

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[5] This is likely to be particularly true of enterprises which have loans that are about to mature and which fear that large flotations by the Government may prevent private enterprises from floating loans on favorable terms.

[6] Here is the principal objection to a sales tax: Under present market conditions most sales and excise taxes cannot be promptly shifted by producers to consumers, and consequently they fall upon working capital. Most enterprises are already operating at a loss or making only small profits. As everyone knows, nothing is more effective in inducing managers to postpone every possible repair and replacement, to let inventories fall to the very minimum, and to lay off every man who can possibly be spared than to see their working capital steadily being consumed by sales below cost.

[7] This would mean abolishing the position of Postmaster General. It would also mean that postmasters would no longer be political appointees. They would be selected and promoted from small offices to large ones on the basis of efficiency and performance, just as the managers of chainstores are appointed and promoted.

Undoubtedly the greatest opportunity to reduce expenditures would be to cut the payments to veterans for disabilities not incurred in service. These payments should never have been made in the first place. They now approximate $450 million a year, or nearly one-fourth of the expenditures of the Federal Government. Nothing would do more to eliminate the fear caused by the deficit and to improve public sentiment toward national finances that for Congress to reduce by $250 or $300 million the payments to veterans not disabled in service. Indeed, I venture the assertion that $250 million taken from the veterans would do more to inspire confidence in the national finances than $750 million of savings achieved in other ways, because it would demonstrate that Congress had the courage and the vision to rise above petty politics in dealing with budget problems. This statement illustrates how largely the problem presented by the deficit is a psychological one. The problem is not to eliminate the deficit, but to reduce it sufficiently and to administer national finances in such a manner as to eliminate the fear caused by it—and thus to derive the maximum inflationary benefit from the deficit.

THE DOLE SYSTEM

Thus far I have arbitrarily defined the immediate unemployment problem as that which must be met between now and next summer. But unemployment will probably be severe during the winter of 1933–34 and possibly much longer. I make this statement in full realization of the fact that a rapid and spectacular business revival would not be at all surprising. So great is the amount of postponed buying by both consumers and business enterprises that a change in the trend of prices (brought about by the revision of debts, the application of the domestic allotment plan, or the world's steadily growing gold stocks) might soon initiate a spectacular upward spiral of buying and investing. It is merely conservative, however, to assume that the revival will be slow and to plan unemployment relief accordingly. Let us face these facts squarely and ask frankly what they mean.

To begin with, they probably mean that we must have the dole on a large scale for at least 2 more years. It has been said that our present dole system is the worst in the world. Since, whether we like it or not, we must have a dole, is it not sensible to make our dole system the best in the world?

What kind of an organization is required? A substantial proportion of the relief funds for at least the next year must come from the Federal Government. The task of administering Federal aid and of furnishing leadership to the States and the local communities in organizing relief is too big to be handled permanently by a division of the Reconstruction Finance Corporation. An Emergency Board of Unemployment Relief is needed in Washington. In addition, State boards are needed, such as those in New York and Illinois; and in many communities subsidiary local boards should be established. The Federal Board should cooperate with the State boards in organizing and perfecting local relief agencies, and should grant financial aid to the States where, in the judgment of the Federal Board, local conditions warrant it. But the Federal Board should be definitely instructed by Congress to refuse Federal aid to any State or locality which, in the judgment of the Board, fails to make a reasonable effort to help itself.

WORK RELIEF

Because relief must continue for a long time, as much it as possible should be work relief. Unfortunately the tendency in most communities has been to reduce the amount of work relief. In some places, particularly in large cities, difficulty has been experienced in finding enough suitable work-relief projects. Often the administration of work relief has been unsatisfactory, and this has had unfortunate effects upon the morale of the holders of work-relief jobs. Most important of all, the expense has been too large in comparison with home relief.

None of these disadvantages is insurmountable. Imagination and careful search will reveal a surprising number of opportunities for work relief even in the large cities. The projects, of course, need not be manual labor, and the need for work relief for the whitecollar unemployed is great. Many useful surveys and investigations might be made by white-collar unemployed. Furthermore, with a State or National relief organization, it would be possible to transfer some city unemployed to projects outside of the cities. Proper administration is largely a matter of proper planning. The hours of employment can be so adjusted that this form of relief does not cost substantially more than home relief. In order to stimulate the development of work relief, a Bureau of Work Relief should be established under the direction of the Federal Unemployment Relief Board. This Bureau should have a substantial appropriation to be used in financing approved projects in cooperation with the States, the cities or the counties.

LIMITING WORKING HOURS

Finally, and most important of all, the prospect of 2 or more years of unemployment on a large scale means that much more drive should be put behind the movement to spread work. It should be a drive, however, not to spread work thinner than it is now being spread, but to prevent hours from being increased too much when business picks up. The subcommittees which have been established by the Teagle committee can scarcely be expected to do this. They are not likely to remain in existence long enough and they lack authority to prevent recalcitrant employers from increasing hours rather than hiring more men. The responsibility for preventing a too-rapid increase in working hours might well be combined with the administration of unemployment relief. The title of the semipermanent board established in Washington should be the Emergency Board of Employment and of Unemployment Relief, and the Board should be authorized to establish in the various industries committees with the function of determining at frequent intervals what working hours, in view of the unemployment situation in the industry, are reasonable. Note that the restriction on hours would relate to the working hours of the men—not the operating hours of the plants. The plants might work 24 hours a day, 7 days a week, provided they worked no man more hours than permitted. Violation of these orders should be punished by suitable penalties.

Probably the Government could not constitutionally exercise this authority except for the period of the emergency. During the emergency, however, there can be no question that Congress possesses the authority to limit working hours by reasonable methods for the purpose of giving more men an opportunity to earn a living.

It is a most grave situation—this one of prolonged unemployment which seems to confront us—and one which we cannot meet unless we are willing to do some things which we have never done before. Perhaps we shall be saved from it by the spectacular revival which the large volume of postponed buying makes possible. Obviously, however, it would be rash to gamble on such a revival. We must prepare to deal with the absorption problem by creating efficient machinery for controlling the increase in working hours and for compelling universal division of work as business picks up.

[From "The Crisis of the Old Order," Houghton Mifflin Co., Publishers]

THE AGENDA OF REFORM

(By Arthur M. Schlesinger, Jr.)

In their way, the critics of American business were caught almost as short by the depression as was American business itself. The traditional concern of the liberal reformers had been with welfare and with freedom, of the labor leaders with wages and working conditions. Depression confronted both groups with a radically new challenge. Assuming the inevitability of economic growth, they failed to anticipate economic collapse. Few among them were ready with either diagnosis or cure.

The labor movement was particularly slow in response. William Green's editorials in the American Federationist hardly acknowledged the existence of mass unemployment until the middle of 1930. The A.F. of L. convention that year was notable chiefly for the violence with which the leadership repulsed the idea of unemployment insurance, Green warning, with all the zeal of a Henry Ford, that the dole would turn the worker into "a ward of the state." As the depression deepened, however, even the A.F. of L. had to recognize its existence. By March 1931, Green was calling for "sustained, coordinated planning" within industries and "integrated cooperation" among them; and in July he declared to President Hoover that unless American employers made a "collective guarantee of work security" they faced "the inevitable enactment of unemployment insurance legislation which, in effect, will fasten a dole upon American industry."

When the federation held its 1931 convention at Vancouver, Green was in a mood of unwonted ferocity. "I warn the people who are exploiting the workers," he said, "that they can drive them only so far before they will turn on them and destroy them. They are taking no account of the history of nations in which governments have been overturned. Revolutions grow out of the depths of hunger." The militance was largely verbal, but it enabled the leadership to avert the endorsement of compulsory unemployment insurance which Dan Tobin of the Teamsters and other bolder leaders were demanding from the floor.

The leading railroad unions echoed this new bellicosity. In the spring of 1932, their leaders, including A. F. Whitney and D. B. Robertson, called on President Hoover. "Mr. President," they said, "we have come here to tell you that unless something is done to provide employment and relieve distress among the families of the unemployed * * * we will refuse to take the responsibility for the disorder which is sure to arise. It is our duty," they continued, "to give the constitutional Government of the United States full warning * * *.

There is a growing demand that the entire business and social structure be changed because of the general dissatisfaction with the present system."

II

But rhetoric was no substitute for action; and the leadership of organized labor was notably wanting in concrete proposals, beyond the 30-hour week. All Matthew Woll's talk about "national planning that shall conceive of the economic activity of the Nation as a whole" could not conceal the lack of specifics. Only two important leaders seemed ready to get down to details—in each case because his own experience had prepared him to think in terms of planning.

One was Lewis of the United Mine Workers. For the coal miners, depression was no novelty; and Lewis had long since backed proposals for planning in his own sick industry. Now he suggested that stabilization planning be generalized for all industry under a national economic council. "We must cast aside," Lewis said, "the treasured old phrases, like 'laissez faire,' 'competition,' 'rugged individualism'." He yielded to no one, he hastened to explain, in opposition to subversive movements. "My sympathies have always been against all un-American and anti-American activities. On the other hand, I realize that we must face the facts today and that we must not seek to ignore the tremendous economic changes and tendencies of our own time."

Like Lewis, Sidney Hillman of the Amalgamated Clothing Workers represented an industry which had been ruined by cutthroat competition and could be saved only by industrywide cooperation. "Really to control unemployment," said Hillman, "we must think and act in terms of economic planning"; and experience had shown that "voluntary cooperation in economic planning is not enough." In his version, the national economic council, to be established under a national house of industrial representatives, including both labor and management, would be given "the authority to work out salvation and the power to carry plans into effect."

Lewis and Hillman, in the end, differed little from Gerard Swope and Henry I. Harriman. But the invocation of "planning" created problems of its own. How, under planning, were prices to be set? Resources allocated? Wages determined? When such questions were asked, an enormous vagueness tended to set in. The hard choices, is seemed, were to be postponed for the hypothetical economic council.

III

Nor were the professional economists much help in filling the technical gap. The grand academic figures—Taussig, Ely, Commons, Mitchell, Seligman—were hardly more prepared for depression than the leaders of business and labor. But the economic heretics of the twenties found stimulus, some even vindication, in depression. And, of all the economists of the day, none was quicker in regaining his feet after the crash than William T. Foster of the old team of Foster and Catchings. For the crash, after all, turned out to have been predictable in terms of the Foster system; and, if he knew the causes of depression, he also conceived he knew the cure.

As he looked back on the twenties, Foster had no doubt about tracing the breakdown, not, in the orthodox manner, to extravagance, but to thrift. "Far from having been profligate, the Nation wasted its substance in riotous saving." Why had industry stopped making goods and hiring labor? "Solely because it cannot sell the goods." "We shall not restore good times," Foster emphasized, "no matter what else we do, until we spend more." "The only sound way speedily to stop the depression is to increase total payrolls."

But purchasing power would not revive, Foster said, of its own accord. "For 3 years we have waited, in vain, for private enterprise to put the necessary currency and credit into circulation." It was folly, he liked to say, to turn the job over to the "lazy fairies." "When private enterprise fails, public enterprise is our only resource. We can restore consumer purchasing power by collective action, and in no other way. Collective action means, necessarily, action by the Federal Government."

The first step should be the increase of the national debt "as far as is necessary to restore employment and production." There was no point in worrying about the size of the debt; once national income began to rise, "then the repayment of the indebtedness of the Federal Government becomes a simple matter." The Government should spend freely—for roads, for slum clearance, for all forms of public works. At the same time, tax reduction could release more money for spending. If nothing else were possible, then pay the bonus; "it is the one way—though a poor one—of conscripting some of the slacker dollars." In every way it could, the Government must put dollars into the hands of those who would spend them. "If that is inflation," said Foster, "there is nothing the country needs right now so much as inflation."

But more was necessary, Foster added, than emergency action. Steep taxes on incomes, profits, and inheritances would keep savings from collecting again in stagnant pools in the future. "It is impossible, as this country has demonstrated again and again, for the rich to save as much as they have been trying to save, and save anything that is worth saving." In their own interest, "we should take from them a sufficient amount of their surplus to enable consumers to consume and business to operate at a profit. This is not soaking the rich; it is saving the rich." In addition, Foster wanted compulsory unemployment and health insurance, the guarantee of bank deposits and rigorous regulation of the security exchanges and stock issues.

Foster had long since lost his illusions about Hoover. The administration seemed to have committed itself to "the economics of original sin"; it had acted as if misery were foreordained and nothing could be done about it. Instead of action, the Nation got exhortation. "M. Coué seemed to have become our Minister of Finance." And yet recovery could be so easy. "If anyone still doubts that our economic troubles are mainly mental, let him consider what would happen if the United States declared war today." Congress would appropriate billions of dollars; orders would go forth to factory and farm; prosperity would return. "Someday," said Foster, "we shall realize that if money is available for a blood-and-bullets war, just as much money is available for a food-and-famine war."

IV

Foster's views found support chiefly among other heretics. The Englishman, John A. Hobson, had developed independently an underconsumptionist analysis of stagnation. Where Foster explained the failure of demand by stressing the leakages from buying power in the process of business saving and financing, Hobson gave attention to the lopsided structure of wealth distribution, which put income in the hands of the wealthy, who would save it, rather than of the poor, who would spend it. He was also more pessimistic about the possibilities of correcting the tendencies toward oversaving without a revision of the capitalist system. If his analysis was more sustained and sophisticated, his recommendations—deficit spending and progressive taxation—coincided with those of Foster. His writings were not without influence in America.

The publication in 1930 of John Maynard Keynes's "Treatise on Money" carried a far more accomplished English economist to the side of the underconsumptionists. To the new doctrines, Keynes brought a rigor of logic, a subtlety of analysis, and a brilliance of exposition which in the end converted them into a new orthodoxy. "This is not a crisis of poverty," Keynes told America in 1932, "but a crisis of abundance." Some voices insisted that escape lay in retrenchment and economy, "in refraining, wherever possible, from utilizing the world's potential production." These, said Keynes, with contempt, were "the voices of fools and madmen." It was inconceivable to him the rubbish men had to utter in the United States if they were to keep respectable. Sensible bankers "have to go about assuring the world of their conviction that there is no serious risk of inflation, when what they really mean is that they cannot yet see good enough grounds for daring to hope for it." So long as this mood persisted, Keynes said he could imagine no course of events that could restore American prosperity in the near future.

In America, Foster and the underconsumptionists had many readers but few followers. A consulting engineer named David Cushman Coyle, whose specialty was structural design, developed somewhat similar views of economic policy. "The higher incomes are not being expended automatically at a sufficient rate to make the country run," Coyle said, "and that is why the Federal Government has to take these surplus incomes and expend them." But the most powerful of Foster's disciples was Marriner Eccles, a Utah banker, who read Foster with care, reinterpreted underconsumption in terms of his own experience as a businessman, and came up with recommendations that surpassed Foster in concreteness and trenchancy.

The problem, as Eccles defined it, was to use Government to bring about an increase of purchasing power. The answer, in his view, was Government spending—for public works; for relief ("we shall either adopt a plan which will meet this situation under capitalism, or a plan will be adopted for us which will operate without capitalism"); for the domestic allotment plan in agriculture; for any other measures which would get money into circulation. The age of uncontrolled individualism, said Eccles, was over; the economy could survive only "under a modified capitalistic system controlled and regulated from the top by Government."

V

For Foster the depression was "exclusively a monetary phenomenon" and hence to be solved "solely by monetary measures." Actually his monetary measures, as they unfolded, would require a considerable set of institutional readjustments; and in Eccles the need for institutional reform was frankly conceded. Yet both Foster and Eccles began with the problem of purchasing power and moved on to the problem of structure. Another school of economists—the institutional school, which found its inspiration in Veblen, Patten, and Commons—took structural reform as its starting point.

The more cautious institutionalists made their headquarters at the National Bureau of Economic Research and concentrated on working out statistical pictures of economic development. But another group in the institutionalist tradition, centering at Columbia University, addressed itself to policy issues. Two economists—Gardiner C. Means and Rexford G. Tugwell—and a lawyer—Adolf A. Berle, Jr.—combined in these years to build a fresh and arresting theory of the American economy.

Means, the youngest of the three (he was 36 in 1932) had long been exploring the area where economics intersected with law and where institutions thus set the pattern of economic development. With James C. Bonbright, he published The Holding Company in 1932, a first attempt at letting light into the mysteries of corporate structure; and the same year, with Adolf Berle, Means collaborated in producing one of the most influential economic treatises of the time, The Modern Corporation and Private Property. Berle, in the years after the disillusion at Paris, had turned to the practice and teaching of law. To their collaboration Means brought an original and capacious economic intelligence; Berle, a few months the senior of the pair, both the finicky precision of a legal technician and the broad perspectives of a social prophet. Each felt that the rise of the modern corporation had revolutionized the economy—and each concluded that it consequently had to revolutionize ways of thinking about public policy. Means developed the implications of this revolution for economic theory, Berle for law and for politics.

In 1930, according to "The Modern Corporation," the 200 largest nonbanking corporations controlled nearly one-half of the nonbanking corporate wealth of the Nation and almost one-quarter of the total national wealth. Half of the steel industry was in the hands of two companies; half the copper industry of four companies; half the anthracite coal was mined by four companies; nickel and aluminum were virtual monopolies. Three groups of companies controlled more than half the electric power industry; two companies made nearly two-thirds of the automobiles; three companies controlled 70 percent of the cigarette trade; one company made half the agricultural machinery—and so it went, from industry to industry. By 1932, according to Berle's calculations, 65 percent of American industry was owned by about 600 corporations. This meant that some 6,000 men, as directors of these corporations, virtually controlled American economic life; "eliminating the inactive directors, the number of men is reduced to not more than 2,000." If the rate of growth were to continue, 70 percent of all corporate activity would be conducted by 200 corporations in 1950. "Mr. Brandeis struggled to turn the clock backward in 1915; Prof. Felix Frankfurter is inclined to believe even now that it cannot last"; but the process could not be reversed. Where society had once been dominated by a feudal system, so now there was evolving a "corporate system" controlled by a handful of industrial barons.

VI

From this situation Means drew daring conclusions for economic theory. Classical economics had presupposed a vast number of small business units equalizing supply and demand through free competition in the market. Monopoly was a deviation, to be summarily dealt with in the footnotes. But what had once been the deviation was now surely becoming itself the norm. "The individualism of Adam Smith's private enterprise," Means wrote, "has in large measure given way to the collective activity of the modern corporation, and economic theory must shift its emphasis from analysis in terms of competition to analysis in terms of control."

The decisive change was from what Means called the "trading market"—the free market of the classicists—to the "administered market." The modern corporation, he suggested, by bringing so large a part of economic life within the administrative control of single units, had altered the character of the economy. As fixed prices replaced flexible prices, the market no longer had an inherent tendency toward equilibrium. In the classical model, an excess of supply over demand would cause a fall in prices until demand caught up; but in the administered market such an excess was likely instead to cause a fall in production. The free market remained dominant only in agriculture; and Means pointed out that the disparity between the agricultural sector, where in depression prices fell and production was maintained, and the industrial sector, where production fell and prices were maintained, was a further source of economic instability.

While Means examined the economics of the corporate revolution, Berle looked at its social implications. The increase in size and the diffusion of ownership caused, it was obvious, an increasing separation between ownership and control. The spread of stockholding, which to Herbert Hoover meant that everybody owned American business, meant to Berle that no one owned it. "Property that you can see means one thing in your life; the property which is only a piece of paper in your safety deposit vault means quite something else." The "owner" was helpless to do anything with this "property," except to sell it for what the security markets would let him have. It was hardly too much to say, observed Berle, that in the corporate system the old idea of private property was slowly losing its grip.

With the separation of ownership and control, the profit motive also began to wane. Those who controlled the great corporations, Berle said, had other interests beside paying dividends to stockholders. Their organizations were becoming social institutions. Modern industrial managers would have to function "more as princes and ministers than as promoters or merchants." One could understand more about them by studying Alexander the Great, seeking new worlds to conquer, then by remembering Adam Smith's petty tradesmen.

Public policy, Berle and Means contended, must aim now at "a unified, controlled, sensible operation" of the new corporate system. This might come about, Berle thought, through the gradual growth by business into responsibility, as "group after group of men who operate the system realize that their first job is to make the system work; and that if this involves their working together instead of working at cross-purposes, then work together they must." So, over generations, a responsible banking community had arisen in Britain; so too, the United States might build "a purely neutral technocracy," running "a collectivism without communism, a common action based on a common responsibility for the result." As against communism, such a collectivism would allow "a complete intellectual freedom; men can discuss and differ." As against laissez-faire capitalism, it would allow men to work "in terms of the national life as a whole, and not in terms of profit." There must be, in addition, a series of immediate reforms; the support of demand through Government spending; the reorganization of the stock market and the Federal control of security issues; the centralization of the banking system; the revision of anti-trust laws to permit consolidation and even monopoly, along with detailed regulation of all concentrated industries; old age, sickness, and unemployment insurance.

"Is this suggestion of a responsible business community," Berle asked wistfully, "merely a dream?" Business leadership, he wrote in 1932, was still characterized by "seizure of power without recognition of responsibility—ambition without courage." The industrial directors "assume little responsibilities to the community, to their customers or to their labor; have no cohesion; fight among themselves." The way things were, Berle gloomily concluded, "the American and the Russia systems will look very much alike within a comparatively short period—say 20 years. There is no great difference between having all industry run by a committee of Commissars and by a small group of directors."

VII

Rexford G. Tugwell of the economics department at Columbia simplified certain panels of the institutionalist design with deft and audacious brush strokes. He wholly accepted the analysis of the Modern Corporation; but where Berle and Means concentrated on industry, Tugwell extended his interest to agriculture; and where Berle and Means tended to be cautious in recommendations, Tugwell speculated on far frontiers both of individual psychology and social planning.

Born in Chautauqua County in western New York, Tugwell was 40 years old in 1931. He had studied with Simon Patten and Scott Nearing at the Wharton School and had vibrated to the excitement of the progressive era. As a youth, he turned to Whitmanesque verse, proclaiming himself big and well made, muscled, lean, and nervous, sick of a nation's stenches, sick of propertied czars:

> We begin to see richness as poorness; we begin to dignify toil.
> I have dreamed my great dreams of their passing,
> I have gathered my tools and my charts;
> My plans are fashioned and practical;
> I shall roll up my sleeves—make America over!

He went into the twenties an apostle of economic unorthodoxy and social reform. He had learned from Patten the economics of abundance and the theory of national planning. From Veblen he took the idea that the domination of "industry" by "business" condemned mankind to the age of scarcity. From Dewey he derived the instrumentalist conviction that reason was the tool with which to shape the future. And in the work of Frederick Winslow Taylor, the father of scientific management, Tugwell found the techniques by which society might achieve the ends proposed by Patten, Veblen, and Dewey. The greatest economic event of the 19th century, Tugwell liked to say, was when Taylor first held his stopwatch on a group of shovelers in the Midvale Steel plant. Only Taylor had not gone far enough. Tugwell believed that the logic of scientific management required the extension of planning from the single factory to the industry and then to the entire economy. "We needed a Taylor now for the economic system as a whole."

He had no use for the classical theory of the free market. "There is no invisible hand," he said, adding characteristically, "There never was." But the search for "a real and visible guiding hand to do the task which that mythical, nonexistent, invisible agency was supposed to perform" met more than the opposition of business. It also met the opposition of old-style antimonopoly progressivism. More polemical than Berle and Means, Tugwell attacked trust busting as a "demagogic stereotype," an obsolescent cliche, a hopeless and disastrous error. The policy of the "pulverization of business" meant that Government was pitting itself against "inevitable, unconquerable industrial forces." It branded as legally wrong what was economically necessary. Rural progressivism was "reactionary," Wilson's New Freedom "anachronistic." While Tugwell had little regard for Theodore Roosevelt and seems not to have been influenced by Croly, he endorsed their preference in the old American antithesis: "Hamilton, far more than Jefferson, had divined what was going on in the economic world and what needed to be done about it."

If any one characteristic was clear to Tugwell about the economic system, it was unity. The greatest need was therefore coordination. This had been achieved once—by the War Industries Board, "America's war-time socialism." The war, said Tugwell enviously, was "an industrial engineer's Utopia. * * * Only the Armistice prevented a great experiment in control of production, control of price, and control of consumption." But the attempt would be surely made soon again. "Ours is a society struggling to become cooperative," he wrote. "All the technical forces tend to produce a collectivistic society; all the thwarted motives of men cry aloud for it. But the way is blocked by the ideologies of the past, buttressed by those who have grown strong in its favors."

VIII

In 1927, Tugwell percipiently called attention to the fact that the increase in labor productivity was outstripping the increase in wages. But business, he commented in "Industry's Coming of Age," was not likely to pass on the gains of productivity on its own accord. And there was neither the public demand nor the technical knowledge to make planning possible in the industrial sector. On the other hand, both these conditions, he began to think, might exist for agriculture. The farmers were seeking a national agricultural policy; and the farm extension service not only supplied information for forecasting but itself constituted a rudimentary apparatus for control. Thus concern with planning led Tugwell into agricultural economics; and his concern with agricultural economics soon brought him to the attention of former Governor Frank Lowden of Illinois and, in 1928, into the Al Smith campaign.

The depression intensified Tugwell's interests in planning. Speaking in the winter of 1931 before the American Economic Association, he tried to confront his audience with the full meaning of a planned economy. A national council with advisory powers, of the kind proposed by Swope or Harriman, could not, Tugwell said, do the job. People might try to distinguish between partial and total planning; but "they all come to the same thing—or will not work." The logic of planning amounted in the end, practically, "to the abolition of 'business.'" Profits would have to be limited and their uses regulated, prices controlled, speculative gains eliminated. There would be constitutional changes too, "the laying of rough, unholy hands on many a sacred precedent, doubtless calling on an enlarged and nationalized police power for enforcement."

"When industry is government and government is industry," Tugwell concluded, "the dual conflict deepest in our modern institutions will be abated. This is one of the basic reasons why the prospect of a planned economy is so congenial to every other hope and belief I have." And, let no one be deceived, the situation in America was getting explosive. For "the future is becoming visible in Russia; the present is bitterly in contrast; politicians, theorists, and vested interests seem to conspire ideally for the provocation to violence of a long-patient people."

This was Tugwell's most radical pronouncement, and it was a little hard to gage its intent. Three years later he claimed before a Senate committee that in tracing out the logic of a planned economy he "was trying to show that it would not work." But these phrases of 1934 were uttered by a Government official whose first obligation, as he saw it, was to protect the President who had appointed him. His argument of 1931 could perhaps be fairly read as an expression of Tugwell's cocky desire to shock an audience with the implications of its too glib slogans. In the same period, he was working out a more sober solution in a book, much revised and finally published in 1933, "The Industrial Discipline and the Governmental Arts."

The spirit of the American Economic Association address had been defiant, doctrinaire, all-or-nothing. In "The Industrial Discipline" Tugwell affirmed the feasibility of a middle way, asserting his faith in what he elsewhere called "the possibilities of a managed society." "We can experiment now," he said, "and we ought to do it before it is too late. Otherwise we are surely committed to revolution." And he made it clear that he did not want revolution. "Liberals would like to rebuild the station while the trains are running; radicals prefer to blow up the station and forgo service until the new structure is built." The ultimate objectives might not be so very different, "but there is all the difference in the world in the ways of achieving what is hoped for." Somewhere between stubborn privilege on one side and "dark destructive intention" on the other, liberalism had to accomplish a democratic reconstruction of economic institutions.

Tugwell's own program now bore a strange resemblance to the plans of Harriman and Swope which had so recently roused him to such sardonic reflections. He called for the organization of industries in self-governing associations, building up to an industrial integration board with industrial and public representatives. The central board would coordinate the industry plans with the overall Government plan. One ingenious suggestion was a tax on undistributed corporate surpluses in order to force investment funds into the open market and thus to subject plans for capital expansion to external control.

While Tugwell went beyond Harriman or Swope in giving his central board enforcement powers, he obviously did not feel that his managed society threatened essential freedoms. The contrast between "The Industrial Discipline" and the drastic alternatives he had presented to the American Economic Association suggested the conflict within him between the theorist, given to dashing and ominous generalization, and the activist, with a pragmatic sense of reality. For Tugwell's doctrine was always—nearly always—redeemed by his deepest commitment, which was to experimentalism as a social method. He distrusted sacred dogmas and ultimate ends. When Prof. George S. Counts dared the schoolteachers to recruit their pupils in the building of a new social order, Tugwell observed, "In this I disagree with Mr. Counts as fundamentally as it is possible to disagree with any one on anything." For Tugwell, education properly aimed at teaching methods, not goals.

His faith in experiment determined Tugwell's attitude toward communism. The future was becoming visible for him in Russia in only a technical sense; the fixed ideology of Marxism, the "vast human sufferings," the "repression, spying and violence" repelled him. "The point at issue," he remarked, "is whether it is better to have social management or not to have it. The answer seems to depend on whether management involves suppression of competing ideas." If the only alternatives were communism and laissez faire "an experimentalist might as well retire from the scene. Fortunately they are not."

With all his zest for institutional reform, he also understood as an experimentalist that there were other things to be done—perhaps, indeed, to be done first. In almost the tones of William T. Foster, he wrote in the winter of 1931, that the support of purchasing power was "a first and most essential task of any plan which was expected to work" and "the point of attack which has most possibilities."

IX

Within the broad range from monetary policy to institutional reform, other liberal economists made contributions. Paul H. Douglas of the University of Chicago brought to the task a resourceful grasp of theory and a powerful personality. He agreed with Foster and Eccles—and with Berle and Tugwell—on the need for Government action in support of purchasing power. He argued cogently for unemployment insurance and other forms of social security. But his special contribution was his belief that the crisis required new political instruments.

In 1928 Douglas had seen little choice between Smith and Hoover; and, after the crash, the League for Independent Political Action, which he had organized in 1929, conceived itself increasingly as the nucleus for a new radical party. John Dewey served as the LIPA's chairman; Howard Y. Williams, a former Social Gospel preacher, as executive secretary; and the national committee consisted of a mixture of liberals, like Stuart Chase, Oswald Garrison Villard, and Morris Ernst, with Socialists like Norman Thomas, Harry Laidler, and Reinhold Niebuhr. Douglas, outlining the LIPA philosophy, dismissed both major parties as "primarily business parties."

A few weeks after the election of 1930, Dewey asked George W. Norris to head a new party based on the principles of planning and control. The weary veteran, who had now left the Republican Party and called himself an independent, declined. "There is no hope," he told Dewey and Williams in his Senate office. He added, in a letter, "Experience has shown that the people will not respond to a demand for a new party except in case of a great emergency, when there is practically a political revolution."

But Douglas, continuing his efforts, published in the spring of 1932 a book entitled "The Coming of a New Party." He reaffirmed his rejection of the major parties; the Democratic Party was not only reactionary in the South and corrupt in the great cities but was "largely maintained by the business interests as a combined lightning rod and lifeboat." No doubt Governor Roosevelt of New York had liberal qualities; but he could not be expected to transform his party. "There is indeed nothing," Douglas said, "that liberals need to rid themselves of more than the infantile notion that a President can by himself greatly change things." Americans must look forward to the day when "the Democratic Party will ultimately go down before the rise of a vigorous party of the farmers and workers in much the same way as the Liberal Party in England has dwindled as the Labor Party has grown."

For 1932, Douglas favored Norman Thomas and the Socialists. "A truly planned economy," he believed, "is almost impossible under capitalism and only practical under socialism." But Douglas remained nondoctrinaire; in the United States, he felt, the question of socialization would be settled not by a categorical answer to the general proposition but by a series of experiments. The 4-year plan, presented by LIPA in January 1932, called for piecemeal measures—Federal relief, public works, social security, tariff reduction—and envisaged public ownership only for the utilities.

Douglas' Soviet journey had given him, as it had given Tugwell, a new sense of the feasibility of planning. It had also pointed up new perils. "Power," said Douglas in 1929, "is as subtly corrupting as wealth"; the "almost inevitable consequence" of the Soviet system seemed the creation of a hierarchy "which, in its pride and callousness, would bear little resemblance to those self-sacrificing spirits who initiated it." The problem for the United States as Douglas now saw it, was to achieve full employment while avoiding the "severe dictatorship and the denial of democracy which unfortunately is also a feature of the Russian program." And he was clear that it was impossible to work with the American Communists in this enterprise. "They are in fact," he said, "determined to discredit all bodies which have other aims or methods than their own."

X

In one form or another, liberal pragmatism was seeking means of attaining a stable economy within a framework of free institutions. George Soule of the New Republic, invoking F. W. Taylor, Veblen, and the War Industries Board, sketched his economic design in "A Planned Society" in 1932. Soule contended that the stimulation of effective demand must be "the main objective of any national economic policy" and called for deficit spending as the best means of achieving this objective; at the same time, he proposed a National Planning Board to serve as a center for production planning. "Every step in the direction of planning for social ends," he wrote, "must be a step away from capitalism." But his appeal was for gradual change rather than revolution; and he rejected the view that capitalism was on the edge of collapse.

Charles A. Beard was even more vehement in his rejection of totalitarianism. The Communists, ruling "by tyranny and terror, with secret police, espionage, and arbitrary executions," had no lessons for a free society. As for the laissez-faire myth, "The cold truth is that the individualist creed of everybody for himself and the devil take the hindmost is principally responsible for the distress in which Western civilization finds itself." America must renounce the philosophy of the antitrust laws and accept the inevitability of integration. Beard's own solution, outlined as a 5-year plan in the summer of 1931, called for a system of cartels in the basic industries, to be controlled by a national economic council, representing business, labor, and agriculture.

New proposals began to crowd the magazines. The institutionalist economist Walton H. Hamilton, dismissing the antitrust laws as the "common sense of another age," wanted "central direction" of the economy extending certainly to capacity, probably to output and possibly to price. John T. Flynn, the financial journalist, declared that "the one great possible hope for the survival of capitalism" lay in the replacement of the individual investor by investment pools, operating under government supervision; if this wouldn't work, he said, "then capitalism is doomed."

XI

But perhaps the most widely read of liberal economists was Stuart Chase. Genially eclectic in his views, Chase had a tart and ingratiating style, an uncommon talent for lucidity in exposition, and an unlimited curiosity about all aspects of the system. He had sat at Veblen's feet in the early twenties; and Veblen remained his intellectual mentor; but he also read Taylor and Keynes, production theorists and monetary theorists, conservatives and cranks, and stirred them all together to brew his own effervescent concoctions. He returned from his trip to the Soviet Union with Tugwell and Douglas in 1927 enormously excited by the Gosplan and, unlike his friend Roger Baldwin, not at all perturbed by the GPU, "Russia is no dream," he wrote in 1931. "Day by day, her shadow falls sharper, bolder, upon the face of the world." But he regarded the Communist model as hopelessly committed to dogma; and he felt that violent revolution would be disastrous in a modern technical society like the United States.

The problem of production, Chase believed, was solved, and the world was ready to move into the age of distribution. This change threw the spotlight on two figures hitherto unappreciated in the economic drama: the technician, whom Chase called "the modern Prometheus in chains"; and the consumer. Give the technician his head, and abundance for all could be guaranteed. But technological development must be guided by planning, not by profit. Chase had almost a Luddite fear of the "anarchic momentum" of free-enterprise capitalism. His suggestion of 1932 for a 10-year mortorium on invention seemed only half jocular; it came after the publication of a book describing the satisfactions of the static economy of rural Mexico.

Once technical progress was under control, then the consumer would come into his own. To the consumers' organization and enlightenment (particularly through Consumers' Research laboratory, with its monthly reports on the quality of merchandise) Chase gave an important share of his energy. The age of consumption, he felt, shifted the whole focus of social discussion, rendering, not only capitalism, but also communism obsolete. The basic question was no longer who owned what, but what method moved most goods with least social disruption.

In certain moods Chase regarded the future as requiring a sharp break with capitalism. Thus he once dismissed the proposals of Keynes as having the "fatal defect" of seeking to repair the prevailing system—"only patches on a boiler which is destined ultimately to explode." But for all the extravagance of his rhetoric, his own proposals usually turned out to be patches on the same boiler. Thus, in other moods, he contended that the restoration of purchasing power was "the key to the enigma." To this end, he called for a "stiff dose of inflation" as well as for redistributive taxation and public works. He proposed a system of "planned production," through revision of the antitrust laws, with industry organized through trade associations under a Peace Industries Board, and a universal system of minimum wages and maximum hours. "What American industry needs above all else, in my opinion," he wrote in the fall of 1931, "is coordination—an integration of supply to demand, and an end to the crucifying wastes and leakages of free competition. The more promptly a given industry acts as an intelligent unit instead of a mob of maniacs, the better I shall be pleased." His New Republic series and book of 1932, "A New Deal," summed up his program in insouciant language, concluding characteristically: "Why should Russians have all the fun of remaking a world?"

XII

The liberal economic thought of the early depression thus tended to converge on two practical programs. One, stemming from Keynes, Foster, and Eccles, approached the crisis from the viewpoint of the failure of demand and proposed to revive purchasing power through government spending. The other, stemming from Veblen and Patten, Berle and Means and Tugwell, approached the crisis from the viewpoint of the misworking of the institutional framework and called for economic integration through structural reform. And whether spenders or planners, these men were all pragmatists rather than dogmatists. They were united by a determination to work within the existing system, to proceed by reason and consent and to preserve the living continuities of free society.

Mr. Justice Brandeis supplied them with their charter in an eloquent moment in March 1932. Mr. Justice Sutherland, for the Supreme Court majority, had ruled that the depression did not justify the State of Oklahoma in declaring the manufacture of ice a public utility. No matter how desperate the crisis, the Supreme Court said, freedom of enterprise, as protected in the 14th amendment, was not to be tampered with "in the interest of experiments." Brandeis, his black-robed arms moving in expressive gestures, read a dissent with deep emotion in the crowded courtroom. He sharply denied that the 14th amendment intended to leave the people helpless before economic disorder. This was, he said, "an emergency more serious than war." It threatened "even the stability of the capitalistic system." In times like these, could the Court assume the responsibility for staying the course of social experiment? "There must be power in the States and the Nation," he said, "to remold through experimentation, our economic practices and institutions to meet changing social and economic needs. * * * Denial of the right to experiment may be fraught with serious consequences to the Nation."

Faith in experiment implied belief in a middle way. The pragmatic approach rejected equally those who would make no change at all in the social order and those who demanded total change. It sought increased government management of the economy but stopped short of government planning of all economic decisions. John Maynard Keynes spoke for the pragmatic reformers in his Saturday Evening Post article of 1930. "I predict," he wrote, "that both of the two opposed errors of pessimism which now make so much noise in the world will be proved wrong in our own time—the pessimism of the revolutionaries who think that things are so bad that nothing can save us but violent change, and the pessimism of the reactionaries who consider the balance of our economic and social life so precarious that we must risk no experiments."

"If we would be guided by the light of reason," said Mr. Justice Brandeis, "we must let our minds be bold."

[From "The Survey," Jan. 1, 1932]

THE CASE FOR FEDERAL RELIEF

(By Gifford Pinchot)

Is this Nation, as a nation, to reach out a hand to help those of its people who through no fault of their own are in desperation and distress? Shall Federal aid be granted in this great national crisis? It is not a question of ability to help. We are the richest nation on earth. If Federal aid is needed, it can be granted. Congress has only to say the word. Shall the answer be "Yes" or "No"?

My answer is "Yes." To my mind it is the only possible answer. Prolonged study and profound conviction support my belief that Federal aid in this depression is our clear duty and our best hope of prompt and permanent recovery. Two solid years of bad times have taught us that we can no longer consider our condition as an unfortunate accident which will automatically right itself if left alone. Gentle bedside language can do nothing for us.

Our methods so far have been restricted substantially to local relief. Those in high places have continually insisted that a national emergency be met with local aid alone. They have left it all, with the exception of a bit of benevolent advertising, to the States and communities themselves. To requests and plans for Federal aid they have cried "dole, dole." Why aid given by the Nation should be a dole, and precisely the same aid given by a State or a city should not be a dole, I have never been able to understand.

Of course none of us wants the dole. None of us is in favor of establishing any system which will give the unemployed money or even food when work can be given instead. But that choice is not before us. Industry and business are not giving men the chance to work. Nor are they feeding the unemployed. We must feed them if they are to live. We must feed them if they are to retain any confidence in the Government under which they live.

Crying "dole" has not helped the unemployed, but it has served a very definite purpose, that of restricting relief to local sources. Then what about local relief? In what direction has it headed us?

A nationwide Community Chest campaign was backed to the hilt by the most persuasive and efficient forces that charitable leaders could muster. We can all rejoice that in many cases the quotas were subscribed. The quality of neighborliness, the virtue of sympathy have not died out. We never feared they had. But if the full quotas aimed at were everywhere collected would they be sufficient to cover the needs of the winter? They would not. Responsible social workers tell me the quotas were fixed on the basis of what the chest managers believed that the communities could be made to subscribe. They were often small in proportion to the real needs. The people who think they can wash their hands, now that the chest drives are over, and go away on trips to Florida should think again.

Where does the bulk of local relief come from? Who carries the load? It comes from and is carried by those who pay taxes to the municipal and county and sometimes to State governments. The Russell Sage Foundation, reporting for 81 cities, found that in past years private funds supplied only 28 percent of the relief. Tax funds supplied the other 72 percent. In some cities over 90 percent came from tax funds.

How are these taxes raised? The answer is that municipalities raise their funds mainly through real estate and other property taxes. Local relief of this kind means an increase in property taxes. This increase in property taxes and the sort of enforced charity by which industry takes a day's pay out of every 20 or so in the month from workers, even from scrubwomen in offices, to help swell relief funds—that is how the program of local relief works out. Yet it is substantially true that every cent a man of small means contributes to relief either directly or indirectly through increased taxes is taken out of consumption. His buying power is immediately slowed down by exactly that much. And the slowing down of buying power means the slowing down of the wheels of industry. Here, then, is the heart of the local-relief plan. By cutting down consuming power, it can only serve to further our economic maladjustment and to sink us deeper in the hole.

Now in considering what plan we are to advance in addition to, or as a total or partial substitute for local relief, it might be well for us to investigate the flaws in our economic structure which brought our present troubles upon us. There ought to be very little doubt that the largest single cause was production beyond the power of the people to consume. Through the years called prosperous, no stone was left unturned which would help perfect or increase our national productive power. Technological improvements, financial devices such as mergers, high-pressure sales campaigns, installment buying, and other credit schemes, all tended to the same end. All helped to raise production to new and dangerous heights, and to leave normal consuming power further and further behind.

Instead of sharing with labor the profits of increased production, industry shunted the wealth back to itself. Wage earners were encouraged, persuaded, cajoled to spend their money buying goods. If they couldn't pay for them now, they should buy on the installment plan. They should borrow money, if necessary. But they should buy. No real American, they were told, could be without his radio and his automobile.

And what happened to the money spent in buying? Did a reasonable part of it go back, in increased wages, to the workingman's pocket so that the circle of producing and consuming could go on? It did not. It went in staggering disproportion to dividends and capital. It went back to industry so that production might be increased, even at the expense of consuming power.

This is no wild guess. This is fact with figures to support it. Julius Klein, Assistant Secretary of Commerce, tells us that in the decade ending in 1929, real wages increased only 13 percent while the returns to all industry increased 72 percent. Where did the 72 percent come from but out of the spent wages of the millions and millions of workingmen? Dr. Klein tells us the dividends in industrial and rail stocks increased by 285 percent, 22 times as fast as wages. Is it any wonder that the crash of depression came? Increased production served only to turn the national wealth into two tremendously unequal channels. By far the bulk of that wealth went back in a torrent to capital and production. A tiny stream returned to purchasing power through wages.

Was overproduction and the disregard of consuming power entirely accidental? I think not. To me it is inconceivable that the great experts in business and economics who have taken over the banking, industrial, and political control of the country could have been blind to what was going on. As early as 1921, the Federated American Engineering Societies reported that many of our large industries were overdeveloped: Clothing, 45 percent; printing, 50 percent; shoes, 50 percent; coal, 50 percent. Yet throughout the whole decade the Depart of Commerce used every power of persuasion to bring industry to the highest point of mass production.

If the drive for superproduction had been coupled with a drive for an increased return to labor and consumers the result might have been very different. If it had been combined with an arrangement for providing men discharged because of laborsaving machinery and mergers with a dismissal wage it might have been helpful. It was coupled with nothing of the sort.

What it was coupled with was a campaign on the part of the Treasury Department to reduce taxation on great wealth. That campaign was not only successful but oversuccessful. Not only was the excess profits tax repealed but the income tax on the higher brackets was reduced.

Meanwhile what was happening to consuming power? What about maintaining the buying ability of those millions of wage earners who would have to use the extra goods turned out by glorified production? Take bituminous coal. In 1923 the people paid $900,000 for a coal commission to direct stabilization of that industry, already in bad shape. Its report and its recommendations were killed in cold blood while the administration looked calmly on. Take agriculture. For years the farm organizations have battled in vain for the stabilization measures which were so badly needed. Take the stock market. Some years ago when speculation was getting out of hand and the Senate had begun to study the situation, the then President concisely announced that the amount of brokers loans was not too high. Never before had a President undertaken to support the stock market.

In all this record not a plan was made—let alone carried out—for stabilizing purchasing power. Not a prop was put beneath consuming ability while producing ability was being reared to such dizzy heights. Our national leaders, those same leaders who have been insisting on local relief, lent willing hands in the development of a prosperity so one sided that it could not stand.

Before going further let us see what sort of an economic structure these men have been building—these men who have consistently opposed the idea of Federal relief. By the steady drying up of the springs of purchasing power and the overstimulation of production, there has been developed in this country the most astounding concentration of wealth in the hands of a few men that the world has ever known.

Here is the basic evil which has brought on the depression, and which we must guard against in planning relief for the future. Here is the evil which is protected and fostered by local relief plans.

In 1926, the Federal Trade Commission made a report to the Senate on national wealth and income. They had studied the county court records of over 40,000 estates. The records came from 12 States and stretched over a 12-year period. The counties studied had been chosen to represent not only every section of the country from coast to coast but also every sort of district from the farms to the congested cities. They found that in this sampling 1 percent of the people owned about 60 percent of the wealth, that $60 out of every $100 were owned by 1 person out of every 100. They found that 40 percent of the wealth, $40 out of every $100, were left for the other 99 percent of the people. In other words, 1 person out of every 100 was considerably richer than the other 99 put together. They found further that 13 percent of the people owned more than 90 percent of the wealth. And at the other end, 77 percent of the people owned only 5 percent of the wealth. Three-quarters of the people could have added up all their fortunes and it would come to a bare 20th of the total. In 1929, the National Bureau of Economic Research made a careful study of all the incomes in this country for 1926. They found that 4,500 people received that year an average of almost $240,000 apiece. And at the bottom of the heap, 44 million people had incomes of about $1,000 each, or less than one-half of 1 percent of the separate incomes of those at the top.

Most recent figures are yet more amazing. In 1929, the per capita income in this country was $700 for every man, woman, and child. But, according to the Treasury Department's preliminary estimate, over 500 persons had in that year incomes of over $1 million apiece. Their total income was $1,185 million. They received, these 500-odd, the average shares of 1,692,000 people.

The facts of concentration alone are impressive enough. But even more so are the indications of how tremendously that concentration increased in the years during which it received governmental encouragement. The figures for these years tell all too vividly the story of a nation building toward disaster by unbalancing its economic equilibrium. On March 20, 1931, the National Industrial Conference Board published in its bulletin figures representing the total income of the Nation for several years back. In 1920 we made over $74 billion. In 1928 we made $81 billion. In 8 years we had increased our income by a little less than one-tenth.

But the Treasury Department's latest annual statistics of income reveal some particularly interesting things to compare with that one-tenth. In 1920 there were 3,649 people who had incomes of over $100,000. In 1928 that number had jumped to 15,977. It had doubled and then doubled again and was still going up. In 1920 those people made a total of over $727 million. But in 1928, those who had the $100,000 incomes and up received about $4½ billion dollars—more than six times as much money. And all this, remember, while the incomes of all our people increased one lone tenth of its previous figure.

Then how about the men who receive a million a year? In 1920 there were 33 of them and they got $77 million. In 1928 there were 511 of them, 15 times as many, and they got over a billion dollars, or 14 times as much. The national income had meanwhile increased by one-tenth

Finally, look at our fellow citizens who get a paltry $5 million a year. In 1920 there were 4 of them and they collected not quite $30 million. But by 1928 they had added 22 new members to their exclusive circle, and the 26 of them were forced to get along with an income of a little over $250 million among them.

In other words, in the 8-year period between 1920 and 1928, while the total national income increased less than 10 percent, the number of men with incomes of over a million dollars increased over 1,400 percent, or 140 times as fast. And the amount of money these men made in 1 year increased 1,300 percent, or 130 times as fast as the total amount of money made by everybody in the whole of the United States. They certainly got their share!

The same astounding concentration of wealth and power is seen in the industrial world. A study of corporate wealth and of the influence of large corporations was published this year in the American Economic Review. The conclusions reached are eye openers. In 1927, there were over 300,000 industrial corporations in this country; 200 of the 300,000, less than seven-hundredths of 1 percent, controlled 45 percent of the total wealth of all these corporations. The same 200 received over 40 percent of all corporate income, and controlled over 35 percent of all business wealth. Furthermore, about 20 percent of the wealth of this entire Nation was in the hands of those 200 corporations.

Truly the growth of these 200 giant corporations has been almost beyond belief. In the 10 years up to 1929 their assets grew from under $44 billion to $78 billion, an increase of 78 percent. The author of the study, Prof. Gardiner C. Means, asserts that if their indicated rate of growth continues in the future they will own within 20 years virtually half of our national wealth. Professor Means then emphasizes an extremely important fact. He says that in 1927, less than 2,000 men were directors of these 200 corporations. Since many of them were inactive, the ultimate control of more than one-third of industry was actually in the hands of a few hundred men. And according to present indications it will still be only a few hundred men who by 1950 will control half of the wealth of this entire Nation.

It is this almost unbelievable concentration of wealth which has killed the consuming power of the average millions and has brought our misfortunes upon us. It is this same incredible concentration which is the chief obstacle in our path to permanent prosperity. And it is the Senegambian in the local-relief woodpile. For if we examine statements and actions of the proponents of local relief, we find that they weave together into a surprisingly harmonious pattern. That pattern does not spell relief for the unemployed. What it spells is persistent shielding of concentrated wealth—not relief for the needy but release for the millionaire.

The local-relief advocates are prolific in denials of any excessive distress. Yet I know that there are almost a million men unemployed in the State of Pennsylvania alone. If my State were typical of the rest of the Nation there would be not far from 10 million unemployed in the country.

Next we have statements to the effect that wage earners are not so badly off because prices have been dropping along with wages. That argument is answered by the Government's figures. Commissioner of Labor Statistics Stewart of the U.S. Department of Labor announced on October 1, 1931, that from June 1929 to June 1931 the cost of living went down less than 12 percent. In the same period, he stated, the total wage decrease was about 40 percent. Wages actually paid dropped more than three times as far as prices.

The local-relief advocates have also laid unwarranted emphasis on Federal public works. Their construction program, they said, has greatly relieved distress and they point out that the number of men employed in the Federal construction program last month was 50,000. We have had the past summer half that number employed on State highways alone in Pennsylvania. And 50,000 is no large percentage of the millions unemployed, after 2 years of depression. Is it any wonder that President William Green of the American Federation of Labor calls this "only a drop in the bucket" toward relieving unemployment?

Finally, there ~~are~~ the plans now underway to make up the Federal deficit the depression has caused.

Treasury proposals to increase the income taxes recommend that the exemptions be lowered and the base of the tax be spread. In other words, much or most of the increase is to come from the little fellows. Certain leaders, among them Senator Reed, advocate a sales tax. A sales tax is simply another way of putting the burden on small business. They do far and away the largest part of the Nation's buying and a sales tax would fall mainly on them. Does a sales tax reach the hoarded millions of the overrich? Does it take money from the coffers of the large manufacturing corporations? It does not. It is another way of seeing to it that concentrated wealth shall remain concentrated.

There is only one conclusion to be drawn from all this: the safeguarding of money in the hands of an incredibly small number of incredibly rich men. The force behind the stubborn opposition to Federal relief is fear lest the taxation to provide that relief be levied on concentrated wealth—fear lest the policy of years, the policy of shielding the big fortunes at the expense of the little ones, should at long last be tossed into the discard.

In the name of those who are overburdened now, I demand that the tax rates on the upper bracket incomes be increased. In their name I demand that the graduation of the inheritance tax be steepened. And in their name I demand that the exemptions and the lower bracket tax rates be left untouched. To meddle with them is to trifle with disaster and to invite the depression to stay. When I ask that the top rates of the income and estate taxes be raised enough to pay for Federal relief tax cannot be shifted. It lies where it falls. The burden of a heavily graduated tax falls on the man who is best able to bear it—who will feel the loss the least. I am strong for it. I am strong for its use to help defeat that shameful situation by which millions suffer from want in the richest country in the world.

You may ask how Federal relief funds can be used. In two ways. First by supplementing the efforts of the States, cities, and other municipal organizations for feeding and otherwise helping people who cannot get work. Second, to give work. There is scarcely any limit to the number of men who could be employed by the Federal Government in great public works of many kinds in every part of the country. Flood control on the Mississippi and other rivers, the development of inland waterways, reforestation and fire prevention, the use of rivers for water supply, irrigation and power, the checking of erosion, the construction of airports and the lighting of airways, the drainage of swampland, the building of highways—all these and many others can be undertaken and will pay for themselves over and over again in the recreated efficiency of national life. More than 2,400 years before the Christian era the rulers of Egypt were faced with the question of employing idle labor. It was answered by the most widespread and effective public-construction program the world up to that time had known. The Nile was harnessed. Irrigation lakes and canals, public buildings and monuments, entire cities, were built on a nationwide scale. Are we lacking in the vision and the courage that set a nation at work 43 centuries ago?

The picture is now complete. Local relief means making the poor man pay. Local relief serves to weaken further our national consuming power and block any hope of permanent recovery. Local relief is part of a vicious policy to shield concentrated wealth—a policy which brought on the depression and has kept it with us for 2 long years. Local relief means release for the rich, not relief for the poor.

Federal relief is demanded by every principle of justice, of humanity, and of sound economics. Federal relief can be raised from the wealthy so that the purchasing power of the millions of average citizens will not suffer. Federal relief can be spent in such a way that unemployment and distress will be defeated and the entire Nation started well along the path to a permanent and balanced prosperity.

Best of all, it should be remembered that plans for a very considerable part of these developments are already in existence, and that work upon many of them could be undertaken with comparatively little delay.

This is no local crisis, no State crisis. It is nationwide. I cannot believe that a national government will stand by while its citizens freeze and starve, without lifting a hand to help. I do not see how it can refuse to grant that relief which it is in honor, in duty, and in its own interest bound to supply.

[From "The Survey", June 1, 1932]

ROCK-BOTTOM RESPONSIBILITY

(By Robert F. Wagner)

The junior Senator from New York has been responsible for the outstanding series of measures at Washington dealing with unemployment. Here he gives the heart of those "individual views" which he has filed as minority member of the select committee of the U.S. Senate appointed last summer (S. Rept. No. 629) to investigate the subject of unemployment insurance. It was a striking fact that no one who appeared before its hearings dissented from the proposition that some form of insurance or reserve must be established. If, as newspaper interviews indicate, the majority members should in the final report subscribe to compulsory insurance, it will be a waymark of the hard times.

It has been only since the full force of the present depression struck our country that we have come to see how unprepared we were to deal with its ravages. No reserves had been laid aside to care for prolonged, involuntary unemployment. As soon as the modest resources of great multitudes were exhausted they were compelled to turn to public and private charity. Statistics gathered by the Russell Sage Foundation show that the amount of nonpension relief increased 449 percent between the first half of 1929 and the first half of 1931. In 81 cities having a total population of more than 36 million, the sum of $132 million was spent for relief during the 12 months of 1931.

Yet charity, whether public or private, should be the last resort and not the first choice in dealing with the economic problem of the wage earners for whom we fail to supply work. Such charity calls for greater voluntary contributions and for higher taxation at the very time when incomes and values are reduced. The consequences confront us on every hand in terms of inadequate relief in spite of the extraordinary efforts of private citizens, States and municipalities. They comfort us in destitution, malnutrition, and spiritual deterioration.

Is there a better way? Can we by adequate preparation preserve the people of the United States against the suffering attendant upon widespread unemployment?

With that question we come to the rockbottom of social responsibility for unemployment. Men are thrown out of work through no fault of their own. It is not the men who walk the streets in search of work who create the industrial system of which unemployment is a part.

The obligation rests upon society to make sure that they shall not go cold or hungry. The alternative is between charity and insurance; and I have no hesitation in making my choice in favor of insurance.

Compulsory insurance against unemployment under state auspices dates from the passage of the British Insurance Act in 1911. Eight years later, Italy adopted a system and was followed by Austria, Bulgaria, Germany, Luxembourg, Poland, Russia, and Queensland. Eight countries—Belgium, Czechoslovakia, Denmark, Finland, France, Netherlands, Norway, and Spain—have voluntary systems. In Switzerland in some of the cantons insurance is compulsory, in others voluntary. Upon the establishment of the Irish Free State the compulsory system was continued. In all of these countries the insurance systems, even where privately organized, are encouraged by the state. In all, except Austria, Germany, and Italy, the state contributes part of the premium costs. At the present time approximately 37,500,000 workers are so protected of whom 34,673,000 workers (exclusive of Russia) are protected by compulsory insurance.

Many of these systems have encountered serious financial difficulties. They were not organized to cope with periods of unemployment so prolonged and widespread as this one. They were intended to cover such risks as occur in the normal routine of industrial activity. To draw an analogy it was not all surprising to find that companies organized to deal in fire insurance found it difficult to meet the losses that arose out of the San Francisco conflagration of 1904. It should be noted, nevertheless, that both in the Irish Free State and in Italy the unemployment insurance systems have accumulated substantial surpluses despite 3 years of depression.

The British System

The original actuarial calculations behind the British system rested on experience showing the average unemployment in the insured trades over a period of years up to 1919 to have been 5.32 percent. In 1921 began a decade of chronic unemployment unrelieved by any sustained period of prosperity, in which that average has been over 13 percent. Obviously enough, the system was inadequate to meet the demands of a double load. That, however, was but one of the difficulties. Great Britain lived in constant expectation that abatement of the depression was near at hand. Consequently, it was not generally felt that there was need for a radical change in the accepted view that the country was dealing with a temporary emergency. Modifications intended for short periods were frequently made in the insurance setup. "Uncovenanted," "extended benefits," and "transitional" were introduced. These benefits shared the characteristics of both insurance and relief. Nonetheless, the British insurance fund in 1924 actually operated at a profit of $45 million.

The sturdiness of the system was further revealed by the fact that in the face of further liberalizations as to scale of benefits and further relaxations in the conditions for qualifying for them, despite also the devastating effect of the coal strike and general strike of 1926, the fund in 20 years accumulated an indebtedness of only $200 million. This (March 1930) was on the eve of the present acute depression. Since then the debt has steadily mounted until it reached $500 million by

September 1931. During the past 6 omnths, it has remained approximately static because of an increase in premium rates and a reduction in the rate of benefits paid.

Certain factors, however, must be taken into consideration in measuring that debt. First, almost half of the amount ($225 million) represents the cost of administering for over 20 years an elaborate system of labor exchanges, an interest charge of over $50 million for funds borrowed from the Government, and all other overhead of the insurance system. Second, it is a fair inference that a very large proportion of the debt represents not the cost of the insurance but of the pure relief which was dispensed through the insurance mechanism. Careful calculation has shown that the entire amount of the debt would be repaid by the normal operation of the insurance fund within 5 years if the rate of unemployment fell to an average of 10 percent.

The British insurance cannot, therefore, truthfully be called a dole. Evidence in our hearings revealed that 82.5 percent of all the benefit payments during the life of the system were supplied from premium receipts and that only 17.5 percent comprised extraordinary appropriations and loans. The so-called dole originally consisted of a free gift, paid not out of insurance funds but entirely out of State funds to ex-servicemen and civilians for a period of 12 months during 1919 and 1920 to meet the special emergency of the transfer from war to peace conditions.

The German System

The German insurance system came into effect at the very moment when the problem of unemployment was reaching extraordinary dimensions in 1927 at a time when 1,470,000 workers, more than 9 percent of those insured, were unemployed. Within a year the average number out of work increased to 1,658,000, grew in 1929 to 2,019,000, and in 1930 to 3,483,000. During 1931 the average number of unemployed surpassed 4½ million. Thus in Germany, too, the problem of unprecedented unemployment placed an unforeseen burden upon the insurance fund which was met in part by borrowing from the Government which aggregated during the first 29 months $148,274,000. These loans have since been canceled. Premiums have been increased from a total of 3 percent of standard wages to 6½ percent.

A total of $1,500 million was paid out in Germany from October 1927, to March 31, 1931, for all forms of unemployment relief. The noteworthy fact is that more than 57 percent of this sum of $858 million had its origin in the premiums paid by employers and employees. The balance of $642 million represented the entire outlay of the German Federal Government, the State governments, and local communities for all forms of emergency relief expenditures including even local poor relief. During the year 1931 the insurance fund alone supported an average of close to 2 million workers.

It is difficult to make comparisons between conditions in Great Britain, Germany, and the United States. An examination of the facts leads to the conclusion that many of the evil consequences of unemployment which have been evident in the United States have for the most part been avoided in those countries and at a relative cost not in excess of that incurred in the United States.

The European experience with unemployment insurance has admittedly revealed serious weaknesses. It is all the more significant to note that the European public, both employers and employees, accept unemployment insurance as an essential part of the prevailing economic organization. The reports of U.S. consular representatives prepared at the request of the Bureau of Labor Statistics and submitted to our committee showed that where compulsory systems are now in existence such objections as are evident are directed toward details of administration and not against the principle.

SENATOR WAGNER'S NINE POINTS

1. The evil consequences of unemployment can and should be mitigated by the establishment of unemployment insurance or wage reserves.
2. Unemployment insurance or wage reserves, to be successful, should be inaugurated under compulsory State legislation and be supervised by State authority.
3. The Federal Government should encourage State action by (*a*) cooperating with the States in the establishment of a nationwide employment service (S. 2687), and (*b*) by allowing employers to deduct from income tax a portion of their payments into unemployment reserves (amending the Revenue Act of 1928).
4. Every system of unemployment insurance or reserves should be organized to provide incentives to the stabilization of employment.
5. The insurance or wage reserve system should be built on a plan financially and actuarially sound so that the premiums paid into the fund shall be sufficient to meet the obligations of the fund.
6. Compulsory unemployment insurance eliminates the competitive advantage of the employer who refuses to recognize his business responsibility for unemployment.
7. Compulsory unemployment insurance preserves the mobility of the worker and his freedom of action in attempting to improve his economic position.
8. Unemployment insurance will beneficially affect not only the workers but agriculture, industry, and trade; all alike profit from sustained purchasing power.
9. Sound business and good conscience both command us, in dealing with unemployment, to abandon the methods of poor relief with its ballyhoo, its inadequacy, inequality, and uncertainty, which are a drain on the sympathy of the giver and a strain on the character of the taker. Let us, like civilized men and women, organize intelligently to prepare today for the exigencies of the future.

AMERICAN EXPERIENCE AND PROPOSALS

Provision against unemployment is no new phenomenon in the United States. One trade union, the Deutsch-Amerikanische Typographia, has had an unemployment benefit system since 1884. In April 1931, 48 trade union benefit plans were in operation. In addition, 15 companies had established reserve funds. There were also 16 joint-agreement plans set up mutually by trade unions and employers. Altogether there were 79 plans in operation, covering approximately 160,000 workers or approximately one-half of 1 percent of the wage earners of the country. About 65,000, or 40 percent of these workers, were insured under union-employer agreements, of which that in the men's clothing industry is outstanding. Indeed the largest single group among the 165,000 employees insured under joint agreements were members of the Amalgamated Clothing Workers of America.

Unemployment benefit plans in the United States 1928 and 1931 (April)

Type of plan	Number of plans		Number of employees covered		Benefits paid	
	1928	1931	1928	1931	1928	1931
Trade union:						
Local	37	48	33,400	44,648	$264,000	$1,870,005
National	4	3	1,320	900	13,613	17,265
Union employer	22	16	65,000	65,000	998,200	1,444,503
Employer	9	15	8,500	50,000	11,781	872,701

Since 1916 more than 30 bills dealing with compulsory unemployment insurance have been introduced in 6 State legislatures without any tangible result. Some of these provided for State systems in line with European experience with contributions to be made by employers, employees, and the State; others—and here we come upon American variants—provided for separate insurance funds for each industry with contributions to be made by employers, employees, and the separate company funds. This last is the system put forward in Feburary by an interstate commission representing the States of Connecticut, Massachusetts, New Jersey, New York, Ohio, and Pennsylvania which reported in favor of compulsory systems of unemployment reserves. It is also the system projected by the first and only State to have thus far enacted a compulsory insurance law, Wisconsin (January 1932). The law goes into effect on July 1, 1933, unless employers of not less than 175,000 employees shall have sooner established voluntary systems of insurance.

The advocates of the so-called American plans declare that insurance on the basis of the statewide pooling of premiums and risks puts unjustified burdens on the employer who gives steady employment to his workers. The premiums are pooled so as to take care of those who may become unemployed, and a company which employs its workers for 26 weeks a year will pay premiums into the unemployment insurance fund for only 26 weeks. Once the plant has shut down obviously no employment is given; and since premiums consist of a percentage of payroll, the absence of a payroll after the shutdown means that no premiums are paid. The result is similar, if a plant is accustomed to discharge one half of its employees during slack seasons. In contrast, the competitors of the irregularly operated plants may have reached the state where they can give their employees regular employment, an attainment realized only after an expenditure of funds and the application of great effort. Nevertheless, under a general pooling of premiums, these stabilized plants have to pay premiums for 52 weeks each year. In other words, the employer who regularizes would be penalized.

These considerations apply not only to individual concerns but to entire industries. If all premiums are pooled into a single insurance fund the industries which operate regularly have to bear the burden resulting from the irregularities in other industries. Experience in England is particularly germane in this connection for there the electrical manufacturing, amusement, and distribution industries have had to pay a large part of the cost of the benefits paid to the irregularly employed workers in textiles, shipbuilding, and coal.

The proponents of the American plans undertake to eliminate these alleged inequalities by provideing for (1) insurance by industry, or (2) company funds.

Insurance by Industries and Companies

The American Association for Labor Legislation has developed a plan for compulsory pooling of the unemployment risks of each major industry. All employers in the clothing industry, for example, would contribute to the same fund, thereby relieving both employers and employees of other more regularly operated industries from supporting idle clothing workers. The size of the necessary reserve fund and consequently the amount of the premiums would be directly determined by the degree of unemployment in the particular industry. Anything done to curtail unemployment in an industry would benefit employers in that line.

The advocates of the company-fund idea contend that insurance by industry has some of the same weaknesses as the all-inclusive insurance system and that the individual employer who succeeds in regularizing would be compelled to bear part of the burdens of his less progressive competitors. They contend, too, that any stimulus to regularization can be effective only if applied to the management of a given company.

Under the company-fund plan each employer bears his own and only his own risks. The plan in itself is exceeding simple. It calls for the establishment of an unemployment-insurance fund for each employer and for the creation of a State agency for the necessary administration and supervision. Each fund is to be separately managed and administered. Contributions are to be made only by the employer.

Provision is made, however, for arrangements whereby employees, individually or collectively, may agree to make contributions for the purpose of securing additional unemployment benefits. The amount of contribution varies. The Wisconsin act provides for a premium equal to 2 percent of wages paid. To stimulate the employer to regularize, he is relieved from making any payments once the fund has reached a predetermined size sufficient to cover reasonable needs in a given year. Thus the Wisconsin law provides that whenever the fund of a given establishment is equal to $75 for each employee on the payroll, further contributions cease. When the fund falls below this amount but is more than $55, contributions are to be 1 percent of the payroll. Underlying this provision is the theory that it affords added incentive to the employer to regularize. If he has little unemployment in his plant the fund will reach the required size in a relatively short period. Thereafter he is relieved of making payments until the fund is impaired by unemployment benefits paid to his employees.

It will be noted that the company-reserve fund operates in just the reverse fashion from the all-inclusive insurance scheme. Whereas under the latter the employer who gives the most employment pays the most premiums, under the former the employer who gives sufficient employment so as not to impair his benefit fund pays no premiums at all. There can be little doubt that the company-fund idea bears more directly upon those sources from which the will and desire to stabilize must emanate than any other plan proposed for unemployment insurance.

SHALL INSURANCE BE COMPULSORY?

The question whether unemployment insurance shall be voluntary or compulsory was the principal issue developed in the course of our hearings. Yet it is a question which does not present a real alternative. The experience here and abroad has already been cited. No extensive insurance has ever been established by the voluntary acquiescence of employers. To advocate insurance with sincerity is to advocate compulsory insurance.

Compulsory insurance does not mean that the States must operate the insurance system, or that the State must contribute to the insurance fund or reserve. All that a compulsory system necessarily involves is that the employer is under statutory obligation to provide insurance or reserves to protect his employees against a stated period of unemployment.

As long as the community bears the cost we virtually subsidize unemployment.

The fear has been expressed that such compulsory insurance would be injurious to the labor movement. The very contrary, it seems to me, is the truth. It will minimize the destructive competition, during periods of depression, of millions of unorganized workers. An established system of compulsory employment insurance would give the labor unions a real stake in the management of business.

Employers are naturally apprehensive of the effect upon their competitive position. Yet those who have voluntarily assumed the obligation report that the increased good will and contentment of the employees, the elimination of soldiering, and the stimulus to management have resulted in efficiencies which more than balance the cost.

The principal responsibility for unemployment insurance rests with the States. The reasons for Federal encouragement are inherent in our economic organization. State boundaries are not economic barriers. They do not check the spread of depression. A similar economic interdependence is apparent between agriculture and industry. The stabilization of industry, the maintenance of purchasing power, the mitigation of want must be national and not merely local achievements.

[From "The Survey" March 1, 1932]

THE NEW LEAD FROM CAPITOL HILL

(BY ISADOR LUBIN)

S. 2390 is an outcrop of the hard times and the imaginative leadership of the Senator whose name it bears, Robert M. LaFollette, Jr., of Wisconsin. It crystallizes the idea of an economic council in terms of legislative provision. It is the result of hearings which brought together bankers, industrialists, economists, labor leaders and engineers who were less called in as a coroner's jury on the remains of our recent prosperity than as a fruitful source of experience and ideas bearing on a new and affirmative lead. The procedure by which it was framed is a fascinating exhibit of a new type of group thinking and statesmanship. And this, so far as we know, is the first time the story has been told as a whole—by an economist who was in it at every stage.

When the subcommittee of the Senate Committee on Manufacturers recently voted favorably on S. 2390, the question of national economic planning in the United States left the realm of theoretical discussion and became an issue of practical politics. The bill would establish a National Economic Council with specific powers for factfinding and recommendation. Not only is it thus an important first-step but in its approach to the means for controlling industrial fluctuations, it breaks away from the sterotyped idea of restricted production in the direction of enhanced consumption. The measure has therefore within it the seeds of a radical change in our economic attitudes and procedures.

The genesis of the bill goes back to the closing days of the 71st Congress whose demise last spring American business awaited with bated breath so that "industry might be freed of the fears of further legislative action and once more be allowed to solve its own problems." It was then that Senator LeFollette submitted a bill (S. 6215) proposing a national economic council and secured the passage of a Senate resoltuion authorizing the Committee on Manufactures of which he was chairman to hold hearings after adjournment.[1]

The council, with powers of subpena and research, was to be composed of 15 members to be appointed by the President and approved by the Senate from lists "submitted by groups of associations and organizations representing the industrial, fianancial, agricultural, transportation, and labor interests of the United States." Its functions were to:

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[1] The other members of the subcommittee charged with this task were Senator H. D. Hatfield, of West Virginia, and Senator Morris Sheppard, of Texas.

> (1) keep advised with respect to general economic and business conditions in the United States; (2) consider problems affecting the economic situation of the United States and its citizens; (3) endeavor to formulate proposals looking to the solution of such problems; (4) make reports to the Congress, together with recommendations for necessary legislation and for other action; (5) from time to time as it deems advisable, submit reports dealing with particular economic questions, together with its recommendations, to the President, to the Congress, and to the appropriate economic associations and organizations interested in such questions.

Nine months were available before the new Congress to mobilize witnesses and take testimony. Various economists were consulted as to the type of evidence that should be collected. It was agreed that the primary question to be answered was: How far could an economic council be effective in preventing or ameliorating future industrial depressions? American business, it was evident, had been thinking primarily in terms of restricting output as the means for stabilizing American industry. That is the coming-out place not only of the widely accepted Swope plan but of the report of the Committee on the Continuity of Business and Employment of the Chamber of Commerce of the United States. Senator La Follette and his advisers, however, were interested in knowing whether the emphasis should not be shifted: Could the consumptive power of our citizens be raised to the point where it would equal our productive capacity? And, if so, how could we make a beginning?

The list of witnesses, as finally drawn up, included outstanding bankers, industrialists, engineers, economists, statisticians, trade-association executives, and labor leaders. The hearings were not to be merely opportunities for them to read prepared statements for the edification of the press. What the committee wanted was information. Considerable time, therefore, was devoted to assembling material bearing upon the history and experience of the invited witnesses. By a study of their public utterances and writings light was thrown on their fundamental attitudes toward industrial and social problems. When finally they appeared before the committee, each session began with a carefully worked out program of questions for the day's examination.

In determining the need for economic planning, a factual picture was needed of the economic trends before and during the business slump. This task was assigned to E. A. Goldenweiser, director of the most important of the official economic and statistical organizations in Washington—the Division of Research and Statistics of the Federal Research Board—and to Laurence H. Sloan, vice president of the largest and most widely known private institution gathering and publishing business and financial information—the Standard Statistics Co.

Dr. Goldenweiser portrayed in statistical form for the decade 1920–29 the course of industrial production, building construction, factory employment, factory payrolls, freight car loadings, railroad income, railroad employment, security issues, interest rates, bankers' loans, bank failures, currency circulation, gold reserves, wholesale prices, retail sales, exports, imports, foreign investments, and international gold movements. He showed the ups and downs of these years—first, the abrupt fall in industrial production in 1920 and 1921 (a decline of 31 percent from the preceding high point); next, a 67-percent increase between April 1921 and April 1923, following upon a $1,400 million expansion of the construction industry, and the rapid growth in the use of automobiles. Then came, in quick succession, a 21-percent slump in early 1924 and the rise of 1925, occasioned by the easy money policy of the Federal Reserve System and the bumper agricultural crop at the time of a foreign wheat shortage. Next, the recession of 1927, followed by the rapid expansion of the next 2 years which culminated in May 1929 in an industrial output surpassing by 15 percent the highest point thus far attained in our history.

During the next 2 years industrial output fell over 40 percent. Accompanying this decline came a 30-percent drop in factory employment and a 45-percent decrease in factory payrolls. As compared with August 1929, he showed that the wage loss to factory workers for the single month of September 1934 amounted to more than $445 million.

Commenting on the fact that production started downward several months before the stock market crash in the fall of 1929, Dr. Goldenweiser said:

> I think, broadly speaking, that this particular decline was largely a matter of having reached the limit of consumptive power at the existing level of prices. * * * It was a very clear case of supply outrunning the demand * * * and the stock market decline was an accelerating factor rather than an initial factor.

One of the most significant and least generally known facts pointed out by Dr. Goldenweiser was the marked decline in residential building which started more than a year before the depression began. This foreshadowing of the future, however, had no effect on our industrial tempo. We continued on our expanding way. In 1928, according to Dr. Goldenweiser's testimony, the American public absorbed new security issues to the amount of $6,080 million. In 1929, we absorbed an additional $8,640 million. Hand in hand went also an increase in bank borrowings, the loans made by member banks of the Federal Reserve System rising by $1,355 million between June 1928 and June 1929.

With the crash came the most spectacular fall of prices ever witnessed in recorded history. Starting from an index level of 98 in June 1929, wholesale prices fell to 69 in the autumn of 1931. The output of the farmer which yielded him an average of $1.40 in March 1929 brought him 72 cents 2½ years later.

The Nation's banking system soon found its portfolios laden with uncollectible commercial paper and depreciated securities. Bank failures became the order of the day. In 1930, there were 1,345 with deposits of $865 million, as contrasted with 501 with deposits of $196 million in the depression year 1921.

Depositors throughout the country took fright and suspensions continued. Funds were removed from banks and put elsewhere for safekeeping with, Dr. Goldenweiser estimated, the consequent hoarding of approximately $1 billion out of a total outstanding circulation of $5 billion.

The havoc wrought by falling prices and by the curtailed incomes of the argicultural and laboring classes was portrayed by Mr. Sloan in his analysis of corporate earnings. The net income of 550 of our largest industrial corporations, which in 1929 amounted to $3,458 million, fell in 1931 to an estimated figure of $1,105 million, a decline of 68 percent. In the same 2 years 26 railroads suffered a drop of $466 million, or 72 percent, in their earnings.

What all this has meant to the investor was well illustrated by Mr. Sloan's data on security values. Common stocks which had risen from an index number of 100 in 1926 to 228 in September 1929 fell to an index number of 80; that is, to one-third of the peak. Outstanding bonds, he estimated, had declined in value by more than $3 billion within 3 years. In addition, bonds valued at $1,023 million had defaulted on interest payments during the first 9 months of 1931, representing a sixfold increase in defaults within 2 years. Over $400 million of these defaults represented the bonds of industrial corporations.

The economic breakdown as portrayed by the statisticians was translated into terms of human well-being by Frances Perkins, industrial commissioner of the State of New York. To the 1,500,000 totally unemployed and the millions of part-time workers in her State the past 2 years of depression have caused a wage loss, she said, of more than $1,600 million. To cope with the suffering occasioned by this tremendous loss of earnings, private and public agencies had available for relief purposes last year some $35 million. "No charitable relief is given until every personal resource, in the way of property and personal belongings, friend borrowing from friend, and all that sort of thing, has been exhausted."

To the families affected by unemployment, but not yet on the level of destitution, loss of income has meant a readjustment to a lower standard of living with ensuing malnutrition and depletion of health, "a result which we will not fully understand until several years have passed and after the crisis is all over." In Manhattan, according to Miss Perkins—

> * * * old, wornout, dirty, darkroom tenements, which a few years ago had been practically abandoned, have now come back into a period of prosperity. The people who had moved out into the Bronx and other sections of New York City, into newer parts of the town, are now finding their way back to the old-law tenements. * * * Two or three families crowd into four- or five-room apartments. That, of course, has always had in the past very undesirable social results.

Here was a picture of sudden economic and social disintegration. Could anything be done to prevent its recurring in the future?

The task of answering this question was assigned first to those who have been at the helm of our economic life; that is, the captains of industry. They were about equally divided in their opinion as to the efficacy of any attempt consciously to bring about some degree of economic stabilization. A striking feature was the frank insistance by some of them that the basis of the present havoc lay in the maldistribution of wealth. To Daniel Willard, president of the Baltimore & Ohio Railroad, one of the most esteemed of our railroad executives, most of the trouble we have today "arises from the fact that we are not dividing things just right, somehow. Our scheme for dividing up is not working. We have not provided for the man who does not have and cannot obtain work." Likewise, Henry I. Harriman, vice chairman of the board of directors of the New England Power Association and chairman of the recent Committee on Continuity of Business of the U.S. Chamber of Commerce, felt that "the reason that many people, even in 1929, were living in want and without a high standard of living was the inadequacy of the wage paid them and the general inadequacy of our system of distribution."

Yet irrespective of the causes lying behind the present emergency, there was a curious fatalism on the part of some of those highest placed in our corporate setup. In the opinion of James A. Farrell, then head of the United States Steel Corp. with its billion of capitalization and its hundreds of thousands of workers, employed and unemployed, there was little that could be done to prevent a future recurrence. Modifying the Sherman Law "so that there could be reasonable competition and reasonable profits" might accomplish some good. As for economic planning, "it would be an impracticable thing in the steel business." This should not, of course, preclude some organization "to keep a watchful eye over the situation." In last analysis Mr. Farrell had no definite opinion "one way or the other as to the utility of the thing." He thought, however, "it might be tried."

Even Mr. Willard was not "persuaded that a commission or council * * * was necessary or would accomplish any substantial good." As to the possibility of such a body having seen the development of the economic trends which were tending to aggravate the situation in 1928 and 1929 and called them to the attention of those in control, Mr. Willard was doubtful. "I suppose," he said—

> it is possible that they might have done it, but I may say that I think it is extremely improbable, because some of the wisest men that I know, at least I look upon them as wisemen, seemingly failed, just as much as I did to see what was ahead of us. Certainly, I did not see it. I would do a great many things, if I were doing them over again, differently from the way I did the last time, and I repeat that with respect to all the men I see engaged in business—they all, or nearly all, seemed to be just as much mistaken as I was.

As for Clarence M. Woolley, chairman of the board of the world's largest producers of radiators and sanitary equipment—the American Radiator and Standard Sanitary Manufacturing Co.—it was his opinion that the factors which affect our economic life are so numerous, complicated, and sensitive, "that it is too early even to consider it" (the creation of a National Economic Council) "due to the lack of essential economic foundations of knowledge that will be required to set up a control of that sort."

But to Alfred P. Sloan, president of the General Motors Corp. (whose net earnings in 1928 when Chevrolet drove Ford out of the market, were $272 million), any attempt to level out the fluctuations in industrial activity "is a step in the right direction." Unwilling to forecast just what could be accomplished he nevertheless felt that "a great deal of good would result from a council made up of the right type of men with an appreciation of the problems we are now confronted with." So, too, Henry P. Kendall, a large operator of cotton mills, emphasized the need "to bring about cooperative action among the basic industries."

George J. Anderson, president of the Consolidation Coal Co., after years of experience in what Mr. Hoover has characterized as the worst functioning of industries, made it evident that he had become convinced that the coal industry at least could not achieve any appreciable degree of stabilization with the voluntary machinery which now prevails. The American people had come to believe that economic leadership is either "absent" or "incompetent," and he insisted that an economic council is the only mechanism whereby "you can put out in front * * * a group of men who will be accepted in the case of common emergency as leaders." Such a body, he believed, "should supply leadership of a type to approach those things which are not within the control of groups, however, well organized."

The real opposition to any attack upon prevailing methods of industrial organization and guidance came from financiers. "Human nature being what it is," none of those bankers who testified could see any effective advantage to be gained from even a continuous study of economic trends. Some like Melvin A. Traylor, president of the First National Bank of Chicago, with a half billion of assets, placed upon our banking machinery a measure of responsibility for the events of the past 2 years. Investment institutions, he said—

> to a larger extent than is true of any of the other banking fraternity, disregarded what should have been obvious signs of danger in many of their promotions.

When asked his opinion of those businessmen who expanded their plant and equipment beyond the consuming power of the market, he replied:

> I have expressed my opinion on that a few times. It was not very popular with some of my friends, but the degree of intelligence exercised by all of us in the look backward, certainly does not entitle us to very much credit as wise men. I think that is particularly true of industrial leadership because, after all, it had the facts of the situation; and those facts, it seemed to me, were conclusive, not only that we could not support the volume of business of 1928 and 1929 for an indefinite period but certainly that we could not look for an increase of that volume and the industrial plant was equipped for a production far in excess of even the consumption we had up to 1929.

Mr. Traylor felt, nevertheless, that the collection and dissemination of data on the condition of industry would have little or no effect upon the conduct of industrial leaders. "As to their effective use," he said—

> I am frankly skeptical, because of the weaknesses of human nature and the inclination of each industry and each nation to pursue its own course, as, at the moment, seems best calculated to serve its own interests.

Eugene Meyer, Governor of the Federal Reserve Board, also expressed little faith in authoritative outgivings as a check to industrial expansion. Admitting that the voice of warning is the most valuable as well as the most scarce in times of prosperity, he, nevertheless, contended that "it is the most inarticulate and it has great difficulty in getting a hearing." "And," he emphasized, "if it is going to be right it is going to be right too soon, and it is going to appear to be wrong."

Prefacing his remarks with the statement that his views were based on hindsight rather than on foresight, Charles E. Mitchell, chairman of the National City Bank, who saw the stock of his institution shrink within 2 years from $585 to $59 per share, admitted, as did Mr. Traylor, that the banking system was in part responsible for the unbridled expansion and speculation of the predepression era. Yet, he contended, the situation was largely outside the bankers' control.

> * * *So long as we live under a system of individual liberty, (he held) we are bound to have fluctuations in business. Freedom for the individual to engage in whatever business he chooses, and to develop that business in accordance with his talent and judgment, is a privilege which all Americans cherish. It involves, however, the freedom to make mistakes.

* * * On matters of giving counsel, my observation has been that it is one thing to give counsel, and another thing to get people to follow it. * * *

In expressing my skepticism of the measure before the committee, I do not want to appear unfriendly to efforts to improve the situation. I can not help feeling, however, that business will be governed best by the natural laws of supply and demand, which will control the situation more effectively than the best-intentioned regulatory or advisory body imposed from above could possibly do. * * *

My principal concern, as I view the possibilities of this bill, is that nothing be done to place a handicap upon the exercise of initiative and enterprise in industry. Time and time again we have seen, in an industry well adjusted in point of capacity to its market, new spirits thrust their way forward with new energy and new ideas, creating excess capacity, it is true; but at the same time revolutionizing the industry and giving it a new leadership. This is the history of economic progress. What is our National Economic Council going to do about this? How can we purchase stability except at the price of progress? This, it seems to me, is the dilemma of any system of central planning.

Insisting that the bankers had done nothing more than to supply what their customers wanted during the period of investment craze, Albert H. Wiggin, of the Chase National Bank, with resources running over $2 billion, expressed the similar opinion that it is to prices and the unconscious automatic functioning of the market that we must look for the necessary checks.

The Chairman. Then, I take it, you believe there is nothing which can be done that will be effective in saving us from these great fluctuations in business activity which we have experienced in our past history?

Mr. Wiggin. I do not think so. A man only lives so many years and his experience only lasts with him so many years. New generations succeed and they will make the same blunders in the next generation and succeeding generations as were made in the first. * * *

The Chairman. Your counsel is one really of despair, then. We are going to suffer these terrific dislocations and the suffering that goes with them on the part of the people generally?

Mr. Wiggin. I think you are looking for a superman, and there is no such thing. Human nature is human nature. Lives go on. So long as business activity goes on we are bound to have conditions of crisis once in so often. We may learn from each one how to avoid that particular difficulty the next time, but you are always going to have, once in so many years, difficulties in business, times that are prosperous and times that are not prosperous. There is no commission or any brain in the world that can prevent it.

The Chairman. You think, then, that the capacity for human suffering is unlimited?

Mr. Wiggin. I think so.

At variance with these bankers, two engineers saw as our immediate need some machinery for controlling the further unwise expansion of capital facilities. Our difficulties, as seen by H. S. Person, director of the Taylor Society, lay in the tremendous increase in our productive capacity and the accumulation of wealth unaccompanied by any significant change in its distribution. Thus, "an ever-larger proportion of the claims on social income have gone to a smaller group in society."

* * * This had led to the development of the strongest of motives for investing this surplus above immediate consumption needs in productive enterprise, in something that will yield a return through time. So great has been this accumulation of what you might call a social surplus, above the consumptional needs of those who have it, that institutions of great strength and effectiveness—investment banking as a whole—have developed, for the purpose on the one hand of stimulating the application of this capital to productive enterprise and the other of devising ways and means for its application. The result, in my judgment, has been an unwise, specific application of capital by industries generally.

> It is a reasonable exceptation that a national economic council, properly organized and manned, and with adequate powers and facilities, could serve as a force—through the publication of pertinent data, analysis of them, and direct recommendations—which would influence business enterprisers to make decisions which are compelled by the facts disclosed; decisions which, because based on common information, would automatically achieve some degree of balance between total consumption and production, and between the production of the various industries.

Although in substantial agreement with Dr. Person, R. E. Flanders, of the American Engineering Council, laid particular emphasis upon the need for a governmental body which among its duties would serve as adviser to the Federal Government on those matters which have a bearing on our economic activities. Pointing to the close relationship of monetary policies, governmental expenditures, taxation, public works, and the tariff to the economic life of the Nation, he stated:

> * * * It is really dangerous for industry to take the position, even tacitly, that if you give it the power it can control the severities of the business situation. I do not think that is possible. I think it is dangerous for industry to put itself in the position that if given power it can produce the results. I think it cannot because the primary elements of the thing seem to me to be in the control of the Government and in the field of government rather than in the field of industry.

The contrasting view on this question of Government action was set forth by Henry I. Harriman, of the U.S. Chamber of Commerce, and Gerard Swope, of the General Electric Co. Emphasizing the need for an economic council if economic stability is to be attained, Mr. Harriman presented the proposition that such a body should be under the control of private business. Although working in closest cooperation with the Government "the council should be appointed by business and supported by business." It should be advisory in its character and should depend upon the reputation of its members and staff for its standing before the country. Such a council, he held, must be supplemented by extensive trade associations and by the power of private industry to restrict its output and to make contracts for dividing its market among its membership.

Both Mr. Harriman and Mr. Swope recognized, however, that the public must be protected against unreasonable prices. They advised subjecting such restriction contracts to some sort of control by a governmental body, but both vehemently denied that this might in the final analysis be a form of price fixing.

One of the most important weaknesses of the Swope and chamber of commerce plans, as brought out in the testimony of Mary van Kleeck, of the Russell Sage Foundation, lies in the absence of power by private agencies to secure essential data from firms who refuse to cooperate with trade associations. Indeed, as she pointed, it was a trade body—the National Coal Association—and a group of steel companies that, through the use of a court injunction, prevented the Federal Trade Commission from securing relevant information on investments and profits in the coal industry in its 1920 study of the cost of living. These plans, she further showed, made no provision for employee representation in the task of planning production. Yet in last analysis such planning means the determination of price policies which in the end influences the cost and standard of living for the working population.

Of the three labor leaders who appeared before the Commission—Sidney Hillman of the Amalgamated Clothing Workers of America; David B. Robertson, of the Locomotive Fireman & Enginemen; and William Green, of the American Federation of Labor—Mr. Hillman was the only one who laid particular emphasis on the weakness of any instrumentality, constituted to deal with our economic difficulties, which does not include representation of labor. Not only did he disagree with the theory that industry could voluntarily achieve stability, but he insisted that the whole recorded history of industry proves the contrary. "They won't do it, they have not done it, and they will not do it. The only power that can put it into effect is governmental action. There have been promises as to what industry will do. We know that nothing constructive from the large point of view was done when they were in a position to do it."

Mr. Green's objection to privately organized boards, as projected by Mr. Swope and Mr. Harriman, lay primarily in the—

> danger that it would lead ultimately to Government price fixing, and that is where labor is interested, because that might be supplemented with the fixing of the rates for labor, and we would certainly be opposed to any plan that would even in a remote way provide for such a condition.

After financiers, engineers, industrialists, came the economists, and among those who appeared before the Commission—John Maurice Clark, Wallace B. Donham, Lewis L. Lorwin, John A. Ryan, George Soule, Leo Wolman, Virgil Jordan, Paul M. Mazur, and J. Russell Smith—none questioned the need for an institution which would keep us continually informed of "the state of the Nation." Walter W. Stewart, our recent representative at the Basle Conference to determine the state of German finances, justified the creation of such a council, however, "only on the assumption that it would be constituted of a personnel that would be of a sufficiently high quality, with the virtues of foresight and of courage to champion an unpopular cause at a time when they think necessary." All felt that without such an institution little could be accomplished along the lines of rationalizing our economic activity. Dean Donham, of the Harvard School of Business, felt that a council could be organized privately by industry, but he agreed with the others that it was only on the initiative of the Federal Government that it was likely to be started. The economists were unanimously agreed further that the immediate function of a council was to serve as a collector and interpreter of all facts that bear in any way on our economic life, and to advise industry whenever possible of the probable trend of events.

And never have the scarcity and shortcomings of existing economic data been more carefully elucidated than in the examination of J. Frederic Dewhurst, chief of economic research of the Bureau of Foreign and Domestic Commerce. His portrayal, which might well have been entitled "What We Do Not Know About Our Economic Life," showed what data we now have lacks many essential characteristics, and designated wide fields in which we have no information at all. Thus, for example, he pointed out that we know little or nothing about how our physical goods are distributed; whence they emanate; where they go; that we know but little about the stocks of commodities on hand; and that with the exception of department store sales, which cover only 3 percent of our retail trade, we have no data on consumer purchases. These are mere samples of the fields covered by Mr. Dewhurst, fields in which so many believe we are thoroughly versed. Without the collection and interpretation of this type of data, it was made apparent, we cannot intelligently get very far in stabilizing our economic system.

A definitely formulated plan for an economic council was presented by Prof. J. M. Clark, of Columbia University, as the result of the deliberations of a committee of economists, appointed by the Progressive Conference of 1931. This proposed the creation, by the Federal Government, of a body to gather and analyze economic data and make plans and proposals. To perform this function he suggested that the body be composed of persons "whose qualifications should be defined in terms of things they have expert knowledge about, or experience with, rather than the interests they represent." Since the problems of organization vary between industries, administration should be assigned to industrial councils in each industry made up of representatives of management, labor force, and the consumers of its products. Their duties—

> might run all the way from the mere extension of trade association functions with a more adequate gathering and use of statistical knowledge for the guidance of trade policies, without power to control supply and control prices * * * to setting up consolidated organizations which would have the status of public utilities and be subject to the same kind of control of price and service, or even beyond that.

Roscoe C. Edlund, representative of the American Soap & Glycerine Producers, saw in an economic council a means for developing "a new conception of the trade association." The latter, he felt, could be made to serve as "a two-way bridge" between the economic planning group and the component parts of the various industries, over which information and advice could pass in both directions. Charles F. Abbott, executive director of the American Institute of Steel Construction, went beyond the Clark proposal and advocated in addition either compulsory membership in trade organizations, or a system of Federal licensing for them.

Thus there passed in array 44 men and women—representatives of a dozen sectors of our economic order. Each had his say about economic planning. Some scoffed; more praised. The fairness of the proceedings was the subject of comment on all sides, and particularly among members of the press. Personal, philosophic, and political disagreements were never allowed to mar the atmosphere. The upshot of it all was, first, a 752-page volume of economic data and opinion which bids fair to serve for many a day as a classic cross section picture of American economic life and American thinking in this era of depression; secondly, reinforced determination on Senator LaFollette's part to see established some Federal body which will at least collect and interpret the information essential to the intelligence guidance of our economic affairs.

Profiting by the advice and criticism of those who testified on the original draft, his revised bill provides for a body of nine members to be "selected on the basis of their acquaintance with and understanding of national economic problems." On this body there shall be "at least one expert in the fields of industry, finance, transportation, labor relations, agriculture, and scientific management." Its powers and functions are to be the same as those provided in the original bill with the additional mandate that it "shall initiate the organization of councils or associations within the major branches of production, distribution, and finance." The National Council is to consider the recommendations of these bodies and suggest measures for putting such recommendations into effect. No trade body, however, is to be recognized unless it be "truly representative of the economic interests within the particular branch of production, distribution, or finance in which it is organized." When such is not the case, the National Council is to encourage its reorganization or the organization of a new body in its place. Thus there would be provided means whereby the National Economic Council can be in direct touch with representatives of industry, finance and labor, and a way paved for the mutual consideration of economic problems and policies.

The success or failure of S. 2390 as a piece of legislation will depend on whether or not we in the United States have reached the stage where we are willing to undertake a moderate initial step in the direction of information and orderliness, yet a step which may prove the threshold to coordinating and revolutionizing the controls of our economic life.

[From "The Survey"—Nov. 1, 1931]

UNEMPLOYMENT INSURANCE

An American Plan To Protect Workers and Avoid the Dole

(By Frances Perkins)

Miss Perkins, New York State industrial commissioner, came back from England with a plan for setting up unemployment insurance in the United States in a way she believes would be fair to workers, to employers, and to the public—a plan free from politics and organized on a pattern of public work which has been proved a success in this country. She sets it forth here for the first time.

Not as a research worker investigating Britain's experiment with unemployment insurance, but as an administrative official seeking light on the aims, the accomplishments, and the technique of that vast project, I recently spent 6 weeks in England. I visited the southern counties where there is no abnormal unemployment and where there has been none during England's decade of depression, and also the Midlands, the coal area, and the Clydeside, where men and women formerly employed in mining, textiles, and shipbuilding have been jobless, some of them for years. My wanderings took me through country lanes, along village roads, through fine city streets, into the slum districts of London, Plymouth, Liverpool, Manchester. I had chances to talk with bankers, government officials, industrial managers, professional people, trade union leaders, merchants, workmen. I visited local unemployment insurance offices, sat in at sessions of referees, and umpire's courts, where doubtful and "refused" claims for benefits are reviewed.

I soon drew a line between insurance itself, an active, going, mutual scheme, and the dole which carries the load of those who drop through and constitutes national mass relief. What I saw convinced me that compulsory insurance against the ordinary hazards of industrial unemployment is sound in principle. I should like to set down here what struck me as the values in unemployment insurance to the community as well as to the workers themselves. It is, of course, only fair in such a discussion to point out some of the administrative difficulties involved. Finally, I want to suggest a possible method of so setting up an American plan of unemployment insurance as to keep the administration of the fund out of politics, and cut down the risk of penalizing employers doing business across State lines through the enactment of compulsory legislation.

On my last visit to England, before the war, I brought back memories of widespread human misery so vivid that they have remained with me through all the crowded years since 1913. At that time, poverty was an inescapable part of the British scene. People who were cold because they had only rags to wear were seen on the streets—men and women with bare feet or feet wrapped in old bits of cloth, and with tattered garments pinned and tied together. Drunkenness was a familiar part of the picture, for desperate people will often spend a few coppers for liquor and forgetfulness rather than for inadequate food.

But the England of 1931 is not the England of 1913. I went from town to town, through one city after another and never saw people in rags or shoeless. I did not encounter that drawn look that comes from years of underfeeeding and despair, except on the faces of a few aged unemployables. The English in general wear clothes that seem to an American dull and monotonous but people on the streets have good, warm durable clothes these days and they all have shoes. Housing is also better than it used to be, both in comfort and in sanitation. The only drunken person I saw in England this summer was an American girl in a hotel lobby. The pubs were well filled but even on Saturday nights in the poorer sections of large cities I saw no drunks. Coming to England freshly after so long an absence, I was continually impressed by the rise in the standard of living in spite of postwar adjustments and the long depression. This I believe to be due in large part to measures which, wise or unwise in method, have lifted some of the unemployment burden from the backs of the wage earners and spread it out on industry and the country.

The whole philosophy and method of social insurance are, of course, products of the complex age in which we live. In a simpler society the individual made his own economic plan. He was the master of his tools of labor, and his own strength, ingenuity, and willingness to work were all he needed to keep himself and his family fed, clothed, sheltered, and provided with the elements his concept of the good life required.

But the individual is a far less independent unit in modern capitalistic society. He does not own the machine he uses. The factors that determine the work he does and his return for it are largely outside his control. The insurance principle, devised long ago to protect helpless dependents from the most severe economic effects of their breadwinner's death, has been extended to cover other hazards before which the individual in a machine age is partly or wholly helpless. Thus we have workmen's compensation to cushion the burden and spread the cost of industrial accident. We have old-age pensions to provide for the years when the worker can no longer keep pace with modern industry. Unemployment insurance is another extension of this same principle.

The present English scene gives a muddled picture of unemployment insurance in action because British unemployment insurance has been almost smothered by the dole to the postwar unemployed. The dole as has frequently been pointed out (see the Survey, April 1, 1929, p. 60) is badly entangled with the unemployment insurance setup, but it is not a part of it. British unemployment insurance is a three-way scheme, with contributions from the employer, the employee, and the state, under an act originally passed in 1911. The dole, officially known as uncovenanted benefit or extended benefits, has been paid through the unemployment insurance machinery to people who have through prolonged unemployment lost their footing as participants in the insurance scheme, but no contributions warranting such payments from the insurance standpoint were put into the fund. The draft on the insurance fund for the dole, and the heavy tax on the national treasury to bolster the fund so that it would take care of a vast army of jobless persons for whom it had not been intended to provide, have produced the results which have done so much to discredit the British experiment in the eyes of American critics.

But there are valuable lessons for both England and America in this confusion in applying the insurance principle to a major unemployment emergency. England's experience is rich in positive suggestion as well as in warnings for further experiments with unemployment insurance in this country and abroad.

In viewing what has happened in England, one needs a lively sense of the realities of the situation. Granted that the confusion of unemployment insurance and the dole was a mistake, the dole itself was a choice between two evils. Millions of people have been without resources of their own in the troubled years following the war. Some demoralization due to idleness was inevitable. Was this demoralization to be increased by hunger, or were the jobless to be enabled to buy food with money which, at the moment, they had not earned? It must not be forgotten that the demoralization of hunger and destitution is long drawn out—it goes even beyond the present generation. There was, of course, a third resource—the jobless could ask charity. In England, where poor relief is locally administered as it is in this country, this would have meant heavy demands for relief resulting in increased taxation in the depressed areas least able to bear such a burden. In the end, it could only have meant widespread destitution, for the coal towns, the textile communities, the Clydeside could not have continued to carry their unemployed without the assistance from the less affected areas which has been provided by the dole.

Through large-scale public relief, England has made it possible for her unemployed to go on buying stockings and coats and flour and blankets, even though they had no jobs. This has lifted some of the load from the wage earner and his family. It has also lifted some of the load from British business and industry because it has helped keep the home market alive. I talked with one of the executives of a chain of five department stores in the depressed manufacturing cities of the Midlands. The stores closed their books July 31, 1931, with a handsome profit. I asked this executive how they had managed it. He divided the credit between careful management and unemployment benefits, which, he said, "have kept money moving." Almost every employer with whom I talked said the same thing. After he had wrung his hands over the dole I would ask, "Well, what should be done? Should it be abandoned?" I never received an affirmative answer. "After all, it's saved England," was the usual reply. "I don't know what we could have done without it."

Among the positive values to England in having an unemployment insurance setup has been the knowledge it has given the country of the actual situation. Britain is able now to analyze her own unemployment problem and to determine how it should be met. Well-informed people in England—economists, Government officials and so on—expect that for some years ahead there will be not less than 2 million unemployed a year in a wage earning population of about 12 million. For 1,200,000 of these 2 million, British experience shows that unemployment insurance must and can be provided. About 500,000 more workers will not have sufficient insurable work during the year to carry them over periods of seasonal ildeness. They must have some additional maintenance, given as the result of a need test, not as a right. For a group of 300,000, provision must be made through social service. They are the aged, the maladjusted, the handicapped, who are industrial unemployable.

At the present time, we in this country cannot look ahead with any degree of certainty, we have no data on which to base estimates of the amount of unemployment with which we shall probably have to deal next year and the year after, nor can we analyze the types of unemployment with which we shall be faced. We do not have the facts which the British system gives.

The most conspicuous blunders of the British experience have been political. I doubt whether the American mind could have accepted the plan of dumping all the unemployed on the unemployment insurance fund without payment of premiums. "Yankee sense" functions among politicians, and clearly, insurance money and relief money ought to be kept in separate pockets.

People who are starving must, of course, be relieved—the whole of modern society rests on some such conception. England has had to learn by a costly experience that a sound insurance scheme cannot bear the whole burden of this social obligation in time of emergency. It is going to be a difficult business from the wage earner's viewpoint and on the side of the public, too, to unscramble the eggs and get back to sound actuarial principles for the unemployment insurance scheme, to adequate relief methods for the uninsured and those whose insurance is insufficent to carry them through big emergencies. Whether or not the American temperament would have permitted us to fall into the mistake of dumping relief on an insurance plan, certainly with England's experience freshly before us, it is unlikely that any emergency would tempt us to try that unsound experiment.

While social insurance theory has wide application, the mechanics of one country's scheme cannot be taken over bodily by another. The English are a homogenous people, with a common language, background, and tradition. That fact affects profoundly the problem of administering a complex law which touches people's lives intimately. I remember sitting in a referee's court where several "doubtful" claims were being reviewed. The procedure is informal. The claimant tells his story in his own way. The three referees ask questions about any points which are not clear, and they may summon witnesses if they feel that further testimony is needed.

None of the claimants whose cases I heard were represented by counsel. Most of them were unskilled workers, but they were able to make a clear statement, and they were fully aware of their rights under the law. One man, for instance, had a fairly involved situation to describe in explaining why he had not accepted a job offered through the local office. If the facts were as he presented them, he was justified in refusing the employment under his trade-union regulations, and was entitled to benefits. The referees asked a few questions to clear up one or two details, then allowed the claim.

"But aren't you going to check his story?" I asked, a good deal surprised.

"That hardly seems necessary," the referee replied. "After all, the man himself knows better than anyone else what his union regulations are and how the work offered him conflicts with them."

Again and again, I was impressed by this British habit of believing one another. It simplifies enormously the job of administering social legislation.

Another element which unemployment insurance would have to take into account in this country is the question of identification. Your English workman answers all his life to the name his parents gave him. In this country, as a matter of convenience, Guiseppi Catalano may be Joe Carter on one firm's record, Jim Lane on the books of another employer. In administering the workmen's compensation law in this State we have found many wage earners who, with no intent to deceive, have changed their names with almost every job. Their own names are hard to pronounce, confusing to spell, and a shortened version of the real name is used by the "boss" and by fellow workers. Some ready and reasonably foolproof system of identification will have to be devised if we are to know that the Tom Paul who lost his job with the X factory last month is the Tim Store who was "let" out by the Y plant in May and whose family know him as Theophilus Sotiropoulos.

Any unemployment insurance measure in its beginning is experimental. If it is to succeed it must be based, so far as that is possible, on known quantities. For this reason, it seems to me unwise to consider for this country unemployment-insurance plans which attempt to divide the benefit fund by industries. So far, we have no reliable basis on which to figure rates under such a scheme. Some industries show the hazard more regularly than others—highly seasonal occupations like the building trades, for example. But an insurance plan, it seems to me, should be drawn with the big emergencies in mind. Its provisions should be framed to give the worker some security in times of widespread unemployment and so safeguard the fund so that it will be relatively adequate to these heavy drains. In an emergency like the current one we cannot say that one industry is more to blame than another for unemployment or for underemployment, and there is no just basis, so far as our present information goes, on which to penalize individual employers or groups of employers for the situation we all face today. From this standpoint, an unemployment insurance plan ought to require a fairly long waiting period—a month, or even longer. This would rule out minor employment breaks in which administration is difficult and expensive, and build up the fund for emergencies against which no degree of forethought or thrift can protect the individual. Where the wage earner's income is interrupted or reduced for shorter periods, individual "economic planning" should be supplemented by some other form of relief if the family situation requires it.

I believe that industry should foot the bill for unemployment insurance. There is a certain theoretical justice in having each employee contribute directly, but practically it is a complicated scheme, inevitably leading to confusion in administration. All forms of social insurance should, so far as possible, be kept impersonal in their administration. To have Tom Jones and Bill Smith each putting his bit into the fund introduces a highly personal element. It leads to friction and misunderstanding by a dozen roads, particularly if, in the experimental stages, the plan breaks down and even those who have paid into the fund do not receive benefits enough to carry them over a major unemployment emergency. The argument that the benefits will "mean more" to the workers if they have contributed directly to the fund seems to me a sentimental consideration. Our experience with workmen's compensation does not indicate that it has any basis in fact.

The main obstacles in the way of successful compulsory unemployment insurance in this country have often been indicated: First, the complication of competition between industries in different States and under different laws; second, the danger of "politics" entering into the legislative extension of benefits and into the administration of the law. This has been the chief cause of the present unsound position of the British scheme. As a method of meeting these difficulties I should like to see a group of industrial States experiment with an insurance authority, modeled on the Port Authority of New York and New Jersey. Such an authority would have to be set up by treaty between the States, and would be empowered to underwrite unemployment insurance in the States which created it. Actually, it would function as an insurance company and would administer one fund for the participating States, incidentally saving them the administrative overhead of carrying separate funds. The authority, by its very nature, would be impersonal and remote from political influences in the separate States. A proportion of the members would probably be appointed by each Governor, to serve fairly long terms, so the authority would not change with each change of State administration. It would, of course, have to run itself on a business basis, just as does the Port Authority.

A logical group of States to initiate such an undertaking would be the seven industrial States, the Governors of which were called into conference by Governor Roosevelt last winter to discuss problems of unemployment, including unemployment insurance (see "The Survey," Feb. 15, 1931, p. 546). These seven States—New York, New Jersey, Pennsylvania, Connecticut, Massachusetts, Rhode Island, and Ohio—have large industrial interests in common. They have already begun to explore together the possible remedies for unemployment which has been a growing problem in each of the seven States for some years. Two of them have had reassuring experience with a nonpartisan body established by treaty to take over a set of problems and responsibilities which they share jointly.

I should like to see the legislative bodies of these seven States call on economic, social service, and insurance experts to explore the possibilities of such a project as I have suggested, and to draw up a detailed plan for putting it into effect for an experimental period. On insurance authority, given wide powers, carefully safeguarded, would have all the advantages of corporate organization, but it would be a public body. At the same time, it would free the unemployment insurance administration of the region from the criticisms that would almost certainly attach to it in the hands of private carriers, or of State commissions which it is sometimes feared will become political in makeup or method.

When I urge unemployment insurance for this country, I do not suggest it as a "cure" for unemployment. Both European and American experience prove that there is no "cure." Unemployment is a symptom, not a disease. Its elimination depends on our ability to define and deal with the economic maladjustments that produce it. Unemployment insurance is not even a safeguard for all the wage-earners of the political unit which inaugurates it. Properly conceived and administered, it covers only those relatively stable workers for whom payments can be made into the fund on an actuarial basis, and who are unemployed as the result of a dislocation sufficiently severe to lose them their jobs and to keep them jobless over a fairly long waiting period. It does not touch the situation of the unstable or unskilled worker who often shifts from job to job, for the worker in a disorganized industry who is frequently on "short time," nor for the "unemployable." It does hold out a measure of security for the average wage earner and his family. "Involuntary unemployment" does not find them destitute, nor render them so, if they are covered by unemployment insurance. On the other hand, they lose no stimulus to prudence and thrift by being so covered, because unemployment benefits represent a sharp drop in the amount of the wage earner's usual income. But to have a steady sum coming in, week by week—$15 or $12 or even $10—during such an emergency as American wage earners are now facing, would mean an immense easing of the hardship and uncertainty. It would also make both public and private relief funds reach further, if they could be used to supplement insurance benefits, rather than to "carry" the families of all the unemployed.

As one way of lightening the burden and the misery of industrial hazards, before which the individual is helpless, I believe social insurance has proved its worth in workmen's compensation laws in this country, in similar laws and in experiments with unemployment insurance abroad. I am eager to see us in this country extend the principles of compulsory insurance to cover the unemployment hazard. And I believe that if we are willing to proceed carefully and experimentally, safeguarding our projects against the difficulties the English experience has defined for us, drawing our plans to conform to our social and political conditions, we can lift the fear and ease the suffering that come to American wage earners and to their wives and children when industry slows up and there are no wages because there are no jobs.

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[From the Congressional Digest, January 1931]

IS WAGNER PROPOSAL FOR FEDERAL EMPLOYMENT AGENCIES SOUND?

(Pro by Senator Wagner)

Entirely too much valuable time has been consumed by idle theorizing over the question, Whose problem is unemployment?

I have been told by well-intentioned citizens that each worker should solve the problem for himself. I have been advised that business was under the duty to eliminate unemployment. Others have urged that the municipalities and States were responsible for it. Into this dispute I decline to enter. To me it seems plain that the responsibility of the Federal Government must not be shirked, for the prevention of unemployment is a distinctly national obligation.

Unemployment today is not produced by local causes. The forces which make for the shutdown of factories, the curtailment of activity in the mines and on the railroads are forces which operate on a national and worldwide scale. The individual workman, the individual business, the State, are helpless when an economic storm breaks upon the country. Only the coordinated strength of the entire Nation is competent to deal with such powerful economic forces.

The sooner the Federal Government does it share, the sooner will States, municipalities, and private industries be in a position to contribute theirs.

What portion of that task properly belongs to the Federal Government?

First. The Federal Government should collect accurate information of employment, unemployment, and part-time employment. Such information is fundamental. No intelligent effort to control unemployment can be exerted without it. Today we have no such information. The Federal Government is the agency best equipped to secure it.

Second. The Federal Government is always engaged in constructing highways, developing rivers and harbors, erecting flood control structures, and public buildings. It should plan these projects in advance and time them so as to make available opportunities for employment when private business slackens.

Third. The Federal Government should join with the States in the establishment of a nationwide system of public employment offices, so as to assist workers to find jobs and to assist employers to find workers with the least amount of delay and with the least amount of friction. Such a system will establish cooperative channels for the free flow of labor between States and between markets.

This is but a bare outline of what the Federal Government can do toward the prevention of unemployment. It is such a plan which is written into the three bills I introduced and which have been passed by the Senate.

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If the Federal Government should begin to exercise these functions, certain definite results may be expected. We shall know where we stand from month to month. We shall no longer grope in the dark. The information will be useful to the Federal Government, to the States, and municipalities, and to each and every intelligent farmer and businessman in the country, who will be enabled to guide production by prospective consumption.

Public construction will be concentrated in periods of depression. If the Federal Government will set the example the States and municipalities will do likewise. A public works program which costs the Nation about $3 billion a year will be turned into a balance wheel to keep employment steady. We shall begin to know something about the unemployed. We shall learn what happens to the men displaced by machines and mergers; what is the fate of men who lose their employment after 40? If we know the facts, I believe we shall find solutions. As long as we remain in ignorance we never can find a remedy.

Of course, carrying out this program will cost money. The long-range plan bill authorizes an appropriation of $150 million; the employment exchange bill, $4 million. These are big sums of money even for a country as large as the United States. But when you stop to compare these figures with the costs of unemployment, then you become competent to judge which way lies true economy. In one single month last winter factory workers alone lost in wages $200 million. In the first 3 months of 1930 it has been estimated that wage earners alone lost no less than a billion dollars in wages. If by a little expenditure of money and a big expenditure of thought and plan we can build a dam to shut off this Niagara of money losses arising out of unemployment, is it not sound economy to do so? Consider what it would have meant to the farmer, to the manufacturer, and in turn to the worker if this vast amount of purchasing power had not been withdrawn from the markets.

There are three forms of unemployment with which we are suffering. Two are characterized now as chronic. There is the technological unemployment which is of a chronic nature, the displacement of labor by machines. Then we have the seasonal unemployment, which has been regarded up to the present time as inevitable, although I think it can easily enough be solved if we address ourselves to the problem. The third is the cyclical unemployment, which is usually temporary in its nature.

The reason why we are suffering from this acute unemployment situation at the present time is that upon this chronic unemployment, technological and seasonal, is superimposed this cyclical unemployment which has brought us down so deeply. Strange though it may seem, while we are confronted with the seriousness of technological unemployment our Government has never even begun to study the question of technological unemployment.

In order to solve the problem, we must have available information. We must build the machinery of stabilization and we must create the channels for the free flow of labor from the place of surplus to the place of need. These three things we now utterly and absolutely lack.

Since these three bills were introduced, the Committee on Commerce has held hearings on this legislation and it is the deliberate judgment of that committee, expressed in its reports, that these bills should be passed.

The ideas embodied in the proposed legislation have met very little articulate opposition. Economists have unanimously given these bills the stamp of their approval as sound and feasible and well conceived to attain their stated objects. Employers have endorsed the bills. Labor has put behind them the full force of its organized opinion. Large industrialists all through the country have approved it. The newspapers of the country, without regard to political division, whether Republican or Democratic, whether conservative or liberal, have joined in a single expression that Congress should pass the bills.

Let us turn to the bill (S. 3060), which seems to be the center of attack. Somebody suggested that there are no employment exchanges in England and none in Germany. They have any amount of employment exchange. That is the center, the crux, of their whole effort to solve unemployment—the employment exchanges. We have altogether 170 offices, and here is Great Britain, with a population of only 42 million as against our 120 million, and she has 1,162 public exchanges; Germany, with a population of 62 million, has 1,293 public exchanges—to bring the man to the job. They found it absolutely essential during their trying times to have these exchanges, first, to segregate the individual, to find out what he can do, what kind of a mechanic he is, and then to send him to the job that wants that type of man. We have no such analysis here.

And here is the way they are attacking the technological unemployment. A man has lost his craft; they find out just about what kind of work he can do and they have a vocational training school connected with the employment exchange. He is put in there for a week or two, readjusted, so that with his mechanical skill he can do some other type of work for which there is a demand and back he goes into the new employment and maintains his standard of living. That is what these employment exchanges are doing there.

Much of the opposition proceeds on the assumption that there are not any State public employment exchanges. Twenty-five States have employment exchanges today; but none of them is informed as to the economic condition of another State. Now New York State cooperates by a special arrangement with the State of New Jersey; the employment exchanges of the State of New Jersey cooperate with the employment exchanges of the State of New York. Where men of a certain type are wanted in New Jersey, a factory is starting up and there are no men available in the State, they communicate with the State of New York and find out whether or not there are men in the State of New York out of employment who would fit into a place of a particular kind that is available. And it is this cooperation between the States which everybody, who has dealt with this subject, has emphasized, and the purpose of this bill is to bring about that cooperation.

Although the National Association of Manufacturers opposes it, I have not heard from a single manufacturer in the State of New York against this legislation and we have a great many of them there—we are a pretty large industrial State. The only opposition I have heard against this legislation is from private employment exchanges.

Now the private employment exchanges, according to their statement here, have an entire misconception of this bill. This bill does not attempt to regulate private employment exchanges; it has nothing to do with private employment exchanges. It deals only with Federal aid to the State employment exchanges in order that we may have cooperation between the States, this communication of economic conditions in one State so that another State may know, which all of the students of this question say is absolutely essential if we are to deal with the question of bringing the man to the job at all.

In this brief against this bill Mr. Emery, for the National Association of Manufacturers, said that this bill was coercion—coercion of the State. The States decide absolutely whether they will accept this Federal aid or not. Where is there any coercion? If the State says "No," that is the end of it.

We have an employment exchange today; the director can erect as many as he likes, and that is why I cannot see the logic of Mr. Emery's argument. He does not object to that, but he does object to the provision of the bill which says, in the event the State does not accept Federal aid then the Federal Government, in order to secure this cooperation (again between the States), may erect an exchange of its own.

We have heard a good deal here about the handling of employment exchanges as a local State function and I want to preserve it as a State function; so, instead of creating these agencies throughout the States, exclusively under Federal Government supervision, I provide that the States shall do the whole thing with Federal aid. Under the bill the State conducts the entire employment exchange; it appoints the employees; it does all the work in connection with the employment exchange.

The only thing the State is required to do is to submit its plan to the Federal Government, so that the Federal Government may know how its money is to be spent and to comply with certain requirements, such as the collection of statistics.

Under the provisions of this bill the States are unfettered so far as the policy they desire to adopt in the appointment of the employees in the employment exchanges is concerned—absolutely. And it is to meet what I feared was an objection to national employment exchanges throughout—the States rights objection—that I provided that this cooperation be secured by having the States do it all and to give Federal aid simply upon condition that certain things be complied with; namely, that we want the statistical information and, also, that the Federal Government take care of the placement between States—the clearing between States.

We are not creating the organization; the State is doing all of that. We are simply giving Federal aid, just as we give Federal aid in many other instances. If there is any constitutional objection to this, then all of your Federal aid is unconstitutional.

What about our Department of Agriculture—our appropriations for the Department of Agriculture? That comes under the general welfare provision of the Constitution. What about our Department of Labor? If this is unconstitutional, the appropriation we make for the Department of Labor is unconstitutional. If this is unconstitutional, the appropriation we make for the U.S. Public Health Service is unconstitutional. All of these appropriations are constitutional, or one-third of our Government would just collapse.

We have a Federal Employment Service today. Nobody has ever suggested that the money expended for the employment service is unconstitutional, or is not authorized by the Constitution.

The argument is made that we are giving the money to the State in return for a surrender of its police powers. The States do not give up anything; they exercise their police power by saying "All right; we will take this money and we will collect these statistics for you; we will cooperate with the other States." It is no more than if I make a contract with you to buy your house for a certain sum of money. I do not give up my right to contract when I make that contract with you; I exercise my right to contract. So the State is not giving up anything; it exercises the right which it has. It may reject or accept, as it pleases. All of this talk about coercion of the State is untenable, to put it very mildly.

Everybody agrees, who has studied this subject, that these employment exchanges are essential. We must admit that State lines are no longer economic barriers. How are we going to get cooperation between the States; how can we ask the State to give us this information to transmit to other States, unless the Federal Government is in there somewhere between the States? You can have Federal employment exchanges in every State in the Union, who will do this communicating between them and so have the clearance between the States, or you can let the States operate the offices. There is the only alternative. Now I took what regarded as the alternative which preserved States rights as against the alternative of having the Federal Government do it exclusively. The States are responsible for the entire administration of those offices. The aid that they get is because of the help which they give the Federal Government in helping the clearing of labor, the placement between States, and collecting this accurate information. It is a thing which can only be solved by cooperation between the States. A public works started here in Washington affects the shoe factory in Massachusetts, textiles in the South and in the New England States, factories in my State. It is so widespread that it requires cooperation in order intelligently to deal with this subject. And this cooperation being absolutely an essential part of the program, I thought this would preserve State rights and yet give us that cooperation. The only alternative is to forget the States entirely and do it all by the Federal Government.

Year after year, decade after decade, we have yearned and hoped and prayed to be relieved of the recurrent onslaught of unemployment. Here is a program of action, not perfect but the best that the present state of our knowledge makes possible; not complete but having within it the seeds of further development; not a panacea for all our ailments but bound to contribute to the solution of unemployment. Here is the program: Three bills, constituting the first three steps on the road to stabilized prosperity.

Pro by Representative Dyer

This bill, in a word, sets up a national employment system in cooperation with the various States and endeavors to promote the establishment and maintenance of a national system of public employment offices; and for that purpose creates in the Department of Labor a bureau to be known as the U.S. Employment Service, under the control of a director general. An appropriation of $1,500,000 is authorized for the fiscal year ending June 30, 1931, and $4 million for each fiscal year thereafter, up to and including the fiscal year 1934. Seventy-five percent of the appropriation is to be apportioned by the director general among the several States in proportion to their population, and the balance of 25 percent of the money appropriated shall be available for administrative purposes. However, no money shall be expended in any State unless and until an equivalent sum has been appropriated for any year by the State; so that unless the State matches the appropriation of the Federal Government, it shall not be permitted to participate in the benefits of this legislation. Moneys appropriated by both the Federal Government and the States shall be used in the maintenance of public offices as a part of the federally controlled system of public employment offices, in cooperation and coordination with the State-controlled system of public employment offices.

It was natural that the constitutionality of this legislation should be questioned. The same constitutional question was raised against the act of November 23, 1921, called the Maternity Act.

This question of constitutionality of the Maternity Act was presented to the Supreme Court of the United States and although the cases were disposed of on the score that there was want of jurisdiction, nevertheless Mr. Justice Sutherland, delivering the opinion of the Court, deemed it important enough to express the following opinion as to the constitutionality of the Maternity Act of 1921:

> What, then, is the nature of the right of the State here asserted and how is it affected by this statute? Reduced to its simple terms, it is alleged that the statute constitutes an attempt to legislate outside the powers granted to Congress by the Constitution and within the field of local powers exclusively reserved to the States. Nothing is added to the force or effect of this assertion by the further incidental allegations that the ulterior purpose of Congress thereby was to induce the States to yield a portion of their sovereign rights; that the burden of the appropriations falls unequally upon the several States; and that there is imposed upon the States an illegal and unconstitutional option either to yield to the Federal Government a part of their reserved rights or lose their share of the moneys appropriated. But what burden is imposed upon the States, unequally or otherwise? Certainly there is none, unless it be the burden of taxation, and that falls upon their inhabitants, who are within the taxing power of Congress as well as that of the States where they reside. Nor does the statute require the States to do or to yield anything. If Congress enacted it with the ulterior purpose of tempting them to yield, that purpose may be effectively frustrated by the simple expedient of not yielding.
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> In the last analysis, the complaint of the plantiff State is brought to the naked contention that Congress has usurped the reserved powers of the several States by the mere enactment of the statute, though nothing has been done and nothing is to be done without their consent.

The instant bill, setting up a national employment system, is in principle the same as the legislation embodied in the Maternity Act. Instead of reducing maternal and infant mortality and protecting the health of mothers and infants by setting up Federal agencies to function in the various States in cooperation with State agencies, we have here a Federal agency set up to work in the various States in cooperation with the State employment agencies for the purpose of reducing unemployment and for the purpose of stabilizing labor conditions throughout the States. In both cases the States agencies make reports to the Federal bureau. In both cases the Federal agency passes upon the efficiency with which the respective States expend not only their own funds but Federal funds as well, to reduce unemployment and stabilize labor conditions. In both cases no State is to receive moneys out of Federal appropriations unless and until it, of its own accord, matches the Federal appropriation by a State appropriation.

In neither case is there any coercion or invasion of the rights of the States. In either case, the States may take it or leave it. No State is asked to yield anything. There may, however, be an enticing and persuasive bait held out to the States; but that does not involve duress, or force, or compulsion; and any State feeling aggrieved can simply say "no." It can avoid being tempted by simply refusing to join in the scheme and plan.

There is, therefore, nothing unconstitutional about S. 3060. Furthermore, in 1917, the attention of Congress was forcibly called to the need of an adequate Federal employment system by the emergencies of the war then existing. As was pointed out by John B. Andrews, secretary of the American Association for Labor Legislation, at the hearings, at that time employers were stealing workers away from each other and it was quite essential that there be a public employment system, with local officers to carry it out efficiently. Congress appropriated $250,000 to the Department of Labor to improve the Federal Employment Service, and the President supplemented this appropriation with $2 million from the President's emergency fund. The result was the creation of an Emergency Employment Office under Federal direction, with something over 800 employment offices scattered throughout the country. This Federal employment system proved invaluable to the country during the period of the war and subsequently during demobilization.

The Department of Labor in April 1919 called a conference to which came delegates representing the Governors of the various States and the Federal Employment Service. This conference urged the continuation of the U.S. Employment Service as a permanent bureau in the Department of Labor, and drew up detailed recommendations for the establishment of such a permanent Federal employment bureau. The Kenyon-Nolan bills, introduced in Congress in 1919, embodied these recommendations. They were supported by a message to Congress from President Wilson, who, in his wisdom, urged the necessity of legislation to meet the unemployment problem by developing and maintaining the Federal employment agencies.

President Hoover for some time past is on record as having approved a Federal employment system. In 1920 President Wilson called a Second Industrial Conference. Mr. Hoover was Vice Chairman of that Conference. The Conference recommended "the enactment of appropriate legislation by the Congress making provision for an employment clearinghouse under Federal control," cooperating with State bureaus. In 1921 Mr. Hoover was Chairman of the President's Conference on Unemployment. That Conference recommended "an adequate permanent system of employment offices," and declared that the existing Federal provision for same was inadequate. In 1923 Mr. Hoover appointed a Committee on Business Cycles and Unemployment. That committee recommended a "national system of employment bureaus." In 1924 Mr. Hoover appointed a Committee on Seasonal Operations in the Construction Industries. That committee called special attention to the report of the President's Conference on Unemployment relative to a permanent system of unemployment exchanges.

It is interesting to note that more recently the Senate Committee on Education and Labor, after an exhaustive study, recommended that the Federal Government should provide an agency to coordinate State public employment bureaus and assist in the national functioning of the unemployment exchanges.

PRO BY AMERICAN FEDERATION OF LABOR

In considering the bill S. 3060, to provide for the establishment of a national employment system and for cooperation with the States in the promotion of such system, and for other purposes, it is important to ascertain—

First. Whether the employment situation is a question of national importance.

Second. Whether the employment situation, if found to be of national importance, is such as to justify and warrant legislation by Congress to establish an agency having for its purpose the bringing about of stabilized employment and to aid workers in obtaining employment.

Third. Whether or not such legislation is constitutional.

That the employment situation is a matter of national importance is clear when we consider the situation now existing in England and the continental countries, the vast numbers of the unemployed in those countries, the lengths to which England has been compelled to go in an endeavor to provide for the existing conditions, and the vast amount of money she has been compelled to appropriate and expend in an endeavor to ameliorate the circumstances of the unemployed.

It must be admitted that the employment situation is one of national importance. Conditions of today have materially changed from those of years ago, and the employee can no longer limit himself to any one city, county, or State in seeking work for his livelihood, but must, if he is to secure employment, look, from time to time, to the country as a whole, and ascertain in what particular part of the country he can find employment.

The individual States have not undertaken to collaborate with their sister States and with the Federal Government to such an extent as to bring about the proper coordination for obtaining the best results from a national aspect. To accomplish this end there must be some center; that is, there must be some clearinghouse, and the best and only way to secure this is by Federal legislation establishing a Federal agency which shall cooperate with and aid the States in the endeavor to solve the all-important question of unemployment, so far as the individual States are willing to cooperate through their own legislatures.

The importance of the question of employment is admitted in the brief of the National Association of Manufacturers filed in opposition to the Senate bill 3060. This brief states that the association and its members are "vitally interested in employment problems, and, individually and in cooperation, are continually engaged in the study and exchange of information and experience for the purpose of securing a better regularization of employment."

The brief, therefore, concedes that the study of employment problems and the exchange of information and experience upon these problems are of importance. Can there be a more effective way of studying these problems and disseminating information and experience upon the same than by the U.S. Employment Service provided for in Senate bill 3060?

The above-mentioned brief of the National Manufacturers Association contends that the proposed act is unconstitutional. To support this contention the cases of *Brazee* v. *Michigan* (241 U.S. 340); *Adams* v. *Tanner* (244 U.S. 594); *Ribnik* v. *McBride* (277 U.S. 354); *Forthingham* v. *Mellon*, and *Massachusetts* v. *Mellon* (262 U.S. 447); *Chicago* v. *Tranbarger* (238 U.S. 77); and *Bailey* v. *Drexel Furniture Co.* (259 U.S. 20), are cited.

In the case of *Brazee* v. *Michigan*, Brazee procurred a license to conduct an employment agency in Detroit under Act 301, Public Acts of Michigan, 1913, and was thereafter convicted upon a charge of violating its provisions by sending one seeking employment to an employer who had not applied for help. Brazee claimed the Michigan statute was invalid because it conflicted with both the State and Federal Constitutions.

The Supreme Court of Michigan sustained the Michigan statute and the Supreme Court of the United States held that a State may require licenses for employment agencies and prescribe reasonable regulation in respect to them, to be enforced according to the legal discretion of a commissioner. The judgment of the lower court was affirmed and the constitutionality of the act with respect to the sections in question was upheld. The court did state that the provisions of the act in respect of fees were "plainly mischievous." The act in question in no way attempts to regulate private employment agencies nor to prescribe fees that the agency may charge.

This case is in fact an authority to the effort that Congress has the power to legislate on the question.

Another case cited in the brief of the association is *Ribnik* v. *McBride* (277 U.S. 354). The State of New Jersey passed an act to regulate employment agencies, which act required a license and also required that the applicant file with the commissioner of labor a schedule of fees. A schedule of proposed fees was filed and the commissioner refused to grant a license upon the sole ground that the fees set out in the schedule were excessive. The question of the constitutionality of the act was involved. The Supreme Court of the United States, reversing the Court of Errors and Appeals of New Jersey, held that the provision regulating fees of private employment agencies was unconstitutional, ruling that the business of an employment agency is not affected with a public interest so as to enable the State to fix the charges to be made for the service rendered.

Mr. Justice Sanford concurred with the majority on the ground that he could not distinguish an earlier decision (273 U.S. 418); and Mr. Justice Stone delivered a vigorous dissenting opinion in which Mr. Justice Holmes and Mr. Justice Brandeis joined.

The present bill contains no similar provision, and there is not a word in the decision of the Supreme Court which would in any way indicate that Congress did not have the power to establish a Federal employment agency.

Adams v. *Tanner* (244 U.S. 594), is also cited in the brief of the association as an authority in support of its contention that the proposed act is unconstitutional. Appellants conducted in Spokane well-established employment agencies for securing employment for patrons who paid fees therefor. An act by the State of Washington was passed prohibiting charging employees fees for such service. Appellants filed a bill in equity in the U.S. district court to restrain the enforcement of the act alleging it to be unconstitutional. The Supreme Court, on appeal, held the act violated the 14th amendment. The sole ground upon which the Court based its conclusion was that the State did not have the power to prohibit private employment agencies from charging an employee a fee.

This question is not involved in the proposed legislation, and the case does not in any way suggest that such legislation as is now under consideration would be unconstitutional.

In the last mentioned case Mr. Justice Brandeis delivered a very strong and illuminating dissenting opinion in which Mr. Justice Holmes and Mr. Justice Clarke concurred. Mr. Justice McKenna also dissented.

Mr. Justice Brandeis reviewed the evils of private employment bureaus, the necessity of aid in solving the employment question by the Federal Government and the Federal legislation having for its purpose the solution of the larger problems of unemployment. He referred to the Immigration Act of February 20, 1907 (34 Stat. 898), which created within the Bureau of Immigration and Naturalization a Division of Information charged with the duty of promoting "a beneficial distribution of aliens." The services rendered by this Division included, among others, some commonly performed by employment agencies; it undertook to place aliens in positions of employment but its operations were national in scope. He also referred to the act of March 4, 1913, creating the Department of Labor, which act resulted in the transfer of the Bureau of Immigration, including the Division of Information, to that Department (37 Stat. 736).

Mr. Justice Brandeis stated, page 607: "By this transfer the scope of the Division's work was enlarged to correspond with the broad powers of the Labor Department. These were declared by Congress to be 'to foster, promote, and develop the welfare of the wage earners of the United States, to improve their working conditions and to advance their opportunities for profitable employment.' "

The underlying principle of the sections of the above-mentioned acts is the same as the underlying principle of the proposed legislation, the only difference being that the proposed legislation affords a greater opportunity for service by the Federal Government in cooperation with the States.

The question of the constitutionality of legislation along the lines of the pending bill was not involved in the case; but the dissenting opinion of Mr. Justice Brandeis apparently anticipated further progress in legislation of this type and clearly and emphatically shows that such legislation is constitutional.

In the case of *Chicago & A.R. Co.* v. *Tranbarger* (238 U.S. 77), cited in the brief of the association, the Supreme Court has under consideration a statute of Missouri requiring railroads to open drains across and through its right of way and road bed so as to form proper drainage. The property owner sued the raiload company for damages growing out of its failure to comply with this statute. The railroad defended upon the ground that the law was ex post facto and also a violation of the provisions of the 14th amendment. The Supreme Court of the United States affirmed the Supreme Court of Missouri, holding the act to be valid and constitutional, stating the answer to the claim that the law was ex post facto to be that the law is not retroactive but only becomes effective within 3 months after its passage. As to the constitutional question, the Supreme Court held the State had the right under its police power to enact such legislation.

The question before the court in that case is totally different from any of the questions presented in the proposed legislation and certainly is not an authority to support the unconstitutionality of the pending bill.

Not a single case cited in the brief support its contention whereas several of the cases, as above pointed out, and especially the *Forthingham* case, infra, show that the proposed legislation is constitutional.

Commonwealth of Massachusetts v. *Mellon* and *Forthingham* v. *Mellon* (262 U.S. 447), is also cited in the brief to support the contention that the proposed act is unconstitutional. The Supreme Court in this case had under consideration the Maternity Act (42 Stat. 224). The provisions of the Maternity Act, insofar as concerns the appropriation of money by Congress to be allocated to the States upon the acceptance of the benefits and compliance with the requirements by the States, are analogous with the provisions of the pending bill. It was contended, in that case, that the act was unconstitutional. The Supreme Court dismissed the appeal because of lack of jurisdiction and not upon the merits of the case. There are certain statements of the Court which clearly indicate that the Court, however, was of the opinion that the act was constitutional and which also clearly answer some of the contentions made in the brief of the association as to the proposed legislation. The Court stated, page 480:

> Probably it would be sufficient to point out that the powers of the State are not invaded, since the statute imposes no obligation, but simply extends an option which the State is free to accept or reject.

No more complete and convincing answer can be made to the contentions of Senator Bingham and to the brief of the National Manufacturers Association than the language of Mr. Justice Sutherland delivering the unanimous opinion of the Supreme Court. (See Mr. Dyer's article in this issue for quotation.)

The brief of the association also cites the case of *Bailey* v. *Drexel Furniture Co.* (259 U.S. 20), in which case the Supreme Court has under consideration the child labor tax law of February 24, 1919 (40 Stat. 1057–1138), which imposed a tax of 10 percent of the net profits of the year upon an employer who knowingly employed any child within the age limits specified in the act. The Supreme Court held that the act was not a valid exercise by Congress of its power of taxation under article I, section 8, of the Constitution, but was an unconstitutional regulation by the use of the so-called tax as penalty for the employment of child labor in the States and that this was in violation of the 10th amendment to the Constitution.

The act before the Court in that case and the proposed legislation (Senate bill 3060) are totally different; and the decision of the Court in that case does not suggest in any way whatsoever that legislation, as provided for in the proposed act, would be invalid. In that case the validity of the act was defended upon the ground that it was a mere excise tax levied by Congress under its power of taxation. The Court held that it was not a taxing act but was in effect a prohibition against employing children below a certain age and the imposition of a penalty for violation of said prohibition.

Finally it is confidently submitted that the pending bill is not only constitutional, but that its enactment is a political and sociological necessity.

Pro by Frances Perkins

I am one of those unfortunate public officials who were obliged to face distressed men and women out of work with some explanation of why it was they could not get work, and what the Government was contemplating for their relief. Under those circumstances I have not found they derive much comfort out of the theory of the rights of sovereign States, nor the intricacies of the economic doctrine of laissez faire. Many of us in the State of New York have held out the hope that the Federal Government and the State government would find some of the gross solutions for the problems facing them as individuals.

There are a number of economic forces which are contributing to the cause of present unemployment; and a number of problems which make it difficult to find adequate means for the prevention or the relief of unemployment.

The three bills which Senator Wagner has introduced into the Senate, taken together seem to me to be a minimum program, the foundation so to speak, for a suitable program of Government assistance toward the solution of the problem of prevention and relief of unemployment.

There are many suggestions which can be made or have been made by economists and expert managers of industry for the prevention of unemployment in certain, particular industries, but not on a nationwide basis. In the treatment of the total problem we need the cooperation of the Government and industrial leadership to make any adequate progress. We have today, as has been said often, the combination of three types of nonemployment. We have first the technological unemployment, which is caused by the displacement of men through the introduction of machinery.

Then we have the seasonal unemployment, which has become heavy, with the high peak of unemployment in an industry at one time, and a period of low depression at another. It is constant fluctuation in employment—we should say the "habitual unemployment" in a given community, rather than the "normal" unemployment—that can be corrected.

This unemployment due to fluctuations can be taken care of largely by the individual trades and industries themselves; and there is now a determined demand, or a determined effort on the part of the more scientifically managed industries of the United States to do what they call "ironing out the curves" in the production line, and to get the industry on an even keel.

The industrialist himself will probably manage to iron out the season curves in production and get rid of seasonal unemployment in industries by diversifying production and by securing advance orders and paying bonuses on advance orders.

These things will go a long way to getting rid of these seasonal unemployment periods; and in that way the Government can give a great deal of help to these people by information collected in a national way.

As to the problem of technological unemployment the industries can do much toward mitigating technological unemployment by timing the introduction of new devices and machinery which save labor, with the object of seeing that they are introduced at the time when they are expanding.

Many employers are aware of that fact and they have introduced their labor-saving machinery and devices in such a way as to take up the natural falling off in the number of employees, who leave their employment.

In this attempt the Government should assist industry by supplying industry with information; with work that can be brought into play at the proper times to take up the slack in employment, the slack in technological employment. And, with the assistance which may come to an industry, where the worker is displaced through unemployment in that particular industry, of finding other and suitable forms of work.

On the problem of cyclical unemployment, no one has dared to say that we will find a preventive of these returning times of business, and therefore of industrial depression. They are frequently due to world economic conditions, and are not within the control of the local Government, or a set of industrialists. Nevertheless, by taking thought of the situation, and by cooperation between the Government and the industrialists, it would seem we could shorten the length of that period of depression, and decrease the depth of that depression, so that we need not go so deep into it without some artificial stimulation, nor so long endured.

This now brings us to the point of considering what value these three bills introduced by Senator Wagner have for carrying out the Government's part of the program.

In the first place we have the bill for collecting statistical information. That is invaluable, as it gives everyone studying the problem the necessary knowledge upon which to proceed. There appears to be no competent objection to that particular bill.

The bill for creating an appropriate reserve for public works is vital. At the exact moment when private industrial employment begins to falter, whether due to the recession of technological unemployment or other cause, the public works program can be put into play just as soon as the collectors of the statistics begin to see there is a falling off of industry in this or in that locality. They can be introduced, a little at a time, the construction on these public works, to take up the unemployed persons thrown out of employment by these periods of seasonal or technological unemployment. And when there is a cyclical depression of the world they can shorten the depth of that period of depression as well as the duration of it through this channel of aid.

Let us consider the 3 million men (this estimate is based on trade union figures, and does not give a complete picture; I think it is nearer 5 million) that are out of employment. But, if out of 3 million men, say we can put 1 million of them to work on public works for say 15 days, 8 hours a day, and at the regular rate of wages, 5 days a week. Right away you bring into play a "spenders brigade"—this spenders brigade of 1 million people would demand products, and in a moment, you would have a demand for 1 million pairs of shoes, and probably 5 million pairs of socks, and 3 million shirts, and a million suits of clothes, to say nothing of the clothing and bedding and other things which their families would require.

And can you imagine what would happen to the clothing industry when orders for a million suits were thrown to them, or the knitting industry when orders for 5 million pairs of socks came to them, and so on down the line of the things that would be consumed by this spenders brigade? Incidently the mills would begin to work when these people started out to buy stockings and they will take their time to buy other necessities for themselves, and it is easy to see that in a short time the depression is over.

After all, the whole thing is a circle and starting motion at one point, it is transmitted to the adjacent points, and then the whole circle gets into motion.

Now through the activities of the Public Employment Bureau, you would get the knowledge of where the opportunities for employment exist. It is the duty of those in the public service to analyze the industrial situation at all times of any community, so as to know exactly the state industries are in; and if a new machine throws glassblowers out of work, he will know other economical trades which are requiring workmen similarly skilled and intelligent where there is an expansion program going on at the same time.

I think there should be a beginning, trade beginning, so that men and boys will have more than one line of industry in which they are skilled, so they can pass from one job to another. More and more the employers are recognizing that they must give their men two skills and keep them up. The Government will be aware of and alert too to the opportunities which may come to the man who had been a first-class mechanic and who was laid off because the trade went into abeyance. A man who is a good mechanic in one trade can be put into other trades where at any given time there is expansion going on; and with the wage-earner market so enlarged there will be developed the various services and the luxury trades to give employment to these people.

As to the work of the Public Employment Service, we have today a public employment service with Federal control; and I, who administer one of these offices in the State of New York, under Federal control, have never felt there was the least bit of interference with State rights on the part of the Federal Director. There has been harmony and unanimity and cooperation.

I was appointed industrial commissioner by the Governor of the State of New York, and not by the civil service. Mr. Francis I. Jones (Director General, U.S. Employment Service) appointed me when I became director. He appointed me Federal director for the State of New York. That is what he does in every State, appoints the local officer as the Federal director. All of the subordinate positions are in the civil service, except the head of the department. Most of the subordinates are paid by the State of New York; two or three are paid by the Federal Government. These are under the New York State civil service law, and they take their examination and are recognized and given the designation by the Federal director of special agent or superintendent or assistant superintendent; and in that way they have the franking privilege which we get through the Federal director. They are employed by and paid by the Federal director, but they dovetail their work in with the other people of the department. That is a device by which we get a certain amount of Federal aid for the Federal employment system. This system has been of invaluable aid to the people of the State. We have 11 offices in the State and we have built up a cooperative system with the help of the municipal and private employment offices of a charitable nature, which were no-fee-taking offices.

During the crises we have transferred some of the people in the Department of Labor to these offices temporarily, and this is to show what can be done by cooperation between the State and the city and the private enterprises.

We have been able to stepup the rate of placement. Our average placement was 3,000 per month until the 1st of February, when it began to go up. In the month of May we placed 10,000, and all by setting up a clearinghouse and collaborating on the jobs daily. Every afternoon by 3 o'clock, through telephone communication and by mail, we clear up all our orders for jobs over the State.

So if there are novelty workers, who make pocketbooks and things of that kind, needed in the city of Rochester, and there are none at hand there, we can send them from Albany, Syracuse, and New York City, or other parts of the State, to Rochester to fill those places. This has brought inestimable help to the men who wanted to go to a job.

Moreover these bureaus, after getting men for positions for which they have been trained, will take a man who was a bricklayer and who they discover has learned at some time of his life a section of the printer's trade, or some other skilled trade, and by a development of his knowledge and experience in that line fit him for a trade in which there is not a lack of employment, or where he can fill in his seasonal slacks. In other words, the development of these bureaus offers an invaluable service to industry and industrial workers, without regard to State lines or boundaries. For it is more and more true that industry does not regard State lines.

We have industrial plants in the State of New York that have other plants or branch plants in New Jersey or Pennsylvania, and their headmen are always going back and forth, thus passing from one State to the other. Why should not the citizens of Boston work in the city of Philadelphia when work is slack in Boston and plentiful in Philadelphia, in their own trade? And why should they not know of the fact that there is work in their line in plenty in a nearby city?

That is what this exchange is for. It will not make jobs where there are no jobs; but coupled up with the other programs and the programs for the stabilization of employment which are being promoted by intelligent employers; it seems a very valuable aid to solve one of the problems of unemployment.

CON BY SENATOR BINGHAM

Federal legislation to aid in meeting employment problems is represented in three bills proposed by Senator Wagner. With respect to one of these bills there is room for great difference of opinion as to the wisdom of its principle and policy.

The first measure proposes a systematic regularization of the construction and repair of the public works of the United States as a means of making Federal contributions to the stabilization of employment. The second measure is intended to provide a national system of employment bureaus. The third authorizes the Bureau of Labor Statistics to collect, compile, and distribute information respecting the state of employment.

With respect to two of these measures, the first and third, proposing a more systematic organization of Federal construction work and the collection of employment information, there was susbtantial agreement in the Senate. The measures passed without opposition. But the second measure, S. 3060, conceals under the plausible appearance of establishing cooperation between State and National employment agencies a series of proposals which challenge the very form of our government, and, in my opinion, it will excite antagonism and friction instead of that cooperation it is essential to secure.

After a careful study of the proposal I came to the conclusion that as a remedy it is far worse than the disease it attempts to cure. It seems to me seriously objectionable: First, because it seeks to seduce or bribe the individual States to surrender a vital power of self-government and to accept Federal supervision and control in exchange for a Federal appropriation. Second, not satisfied with undertaking to persuade the States to part with these vital rights in return for Federal aid, it proceeds to coerce the State into the acceptance of that assistance, and of dominant Federal control, by threatening the establishment and maintenance of competing Federal agencies unless the State accepts the Federal plan. Third, the policy of the bill is in direct contradiction with the recommendations of President Harding's conference on unemployment of 1921, of which President Hoover, then Secretary of Commerce, was Chairman. Fourth, since the bill, in contradiction with the recommendations of the representative Conference on Unemployment, undertakes to compel rather than persuade the cooperation of the States, it is likely to excite opposition and friction rather than local good will and cooperation. In a word, it proposes to adopt a remedy once rejected as impracticable and offense to the traditions and practice of local self-government.

Let me ask you to consider specifically what this bill proposes to do: It would establish a national system of employment offices under the control of a new bureau in the Department of Labor to be known as the U.S. Employment Service. Its executive head is to be a Director General of Employment appointed by the President. The function of this bureau is to furnish information as to opportunities for employment and set up a system of clearing labor between the States by establishing uniform standards, policies, and procedure in its employment agencies, and aiding in the transportation of workers to places of employment. So far the measure proposes nothing incompatible with voluntary cooperation between the State and Federal Government.

But the measure does not stop here—it carries an appropriation of $16 million to be expended during the next 4 years, at the rate of $4 million a year. Three million dollars of this sum is to be annually apportioned among the States of the Union in the proportion which their populations respectively bear to that of the United States, for the purpose of aiding in the establishment of employment offices in the States. A State may secure Federal aid to establish an employment agency system or to support one already in existence by agreeing through its legislature to cooperate with the Federal agency. But to secure this 50-percent contribution from the National Government the State must submit a plan of operation which conforms to rules and regulations to be prescribed exclusively by the Federal Director General, a new bureaucrat in Washington. It must agree not only to conform to his plans and direction, but it must constantly report to him in such form as he shall prescribe. Each State must not only expend the Federal funds in such manner as he directs, but also its own funds appropriated out of its own State treasury. If these requirements are not fulfilled, the Director General is authorized to withdraw the Federal aid.

Up to this point the bill says to the States: "Establish an employment agency in the manner the Federal Government prescribes, or agree to operate the one you already have under its direction, and we will contribute 50 percent of its cost of operation." Now, the operation of a public employment agency and the policy which the State shall pursue toward employment regulation is indisputably a matter completely within the exclusive control of its own legislature, never delegated to the Federal Government by the Constitution, and which under the 10th amendment of the Constitution is reserved to the States. So, up to this point the bill plainly asks that the State voluntarily surrender its local police power and prescribed right of self-government in return for a Federal appropriation.

But the bill also goes further. Its proponents determined not merely to try to bribe but, if necessary, to compel the States to accept the plan which the Federal Government proposes. That is to be accomplished in this way: From an annual fund of $1 million, the Director General of Employment is authorized, in his discretion, to establish and operate a system of Federal employment offices in any State which has none of its own. It may be that the people of your State, from a knowledge of local conditions, are satisfied that existing private agencies in industry, manufacture, merchandising, or transportation, or quasi-public bureaus, meet the actual needs. Nevertheless, the Federal Government, under this bill, could direct the establishment of a Federal agency to deal with local conditions, whether your State desires it or not.

This is bad enough, but the proposal does not even stop here. Its proponents know that three-fifths of the States and dozens of cities, as well as many voluntary organizations, have established effective employment agencies. These they obviously desire to put under Federal control and direction. To that end the bill declares that in States where there now exists a system of public employment offices, but where the State has not through its legislature accepted Federal aid and control, the Director General of Employment may enter upon an agreement with the Governor of the State for the establishment of a Federal agency system. You will notice here the astonishing proposal that because the legislature of a sovereign State, which alone has the right to determine its public policy, does not wish to accept the terms of the bill, a Federal officer is directed to enter upon a treaty with the executive instead of the legislative branch of the State government to get the Governor to do what the legislature refuses to do, thus ignoring and contravening the will of the people.

Proposals involving appropriations for Federal aid in this and other forms approach perilously near to that state of affairs against which our forebears revolted. The money for Federal aid is raised by taxes in which everyone has a part, directly or indirectly. The citizens of no State escape from this. And even if a State declines to accept its share of Federal aid under the conditions imposed upon it by the law authorizing such aid, it is nevertheless obliged to pay its share of the tax made necessary by the law. A paternalistic Federal Government, in effect, says to the States: "This is a good project. You must pay for it whether you believe in it or not." This bill which we are considering goes even further, as already pointed out, and serves notice on the States that they will be compelled to participate in the proposed plan, even though it may be against their will.

Granted that under certain conditions the operation of the plan might be of some present benefit, is it best in the long run that these ends be secured through the Federal Government, or through the State government? Is it best to have more centralization in Washington, more bureaus, more money wrung from the taxpayers for the bureaus to spend, more power for the bureaucrats? Is it wise that for the sake of desirable ends we take away the responsibility of the States to look after their own citizens? My answer is "No."

Now, let us look at another argument. It is asserted by proponents of this measure that it conforms to the recommendations of President Harding's Conference on Unemployment, in 1921, and those of the Committee on Business Cycles and Unemployment, in 1923, and President Hoover's declarations in his address to the U.S. Chamber of Commerce.

In his address over the radio on May 24, Senator Wagner declared, respecting President Harding's Unemployment Conference of 1921:

> It finished its sessions by recommending the principles embodied in my three unemployment bills. Mr. Hoover was Chairman of that Conference.

Now, the Conference of 1921, composed of over a hundred representative persons drawn from every walk of life, representative economists, educators, and manufacturers, and representative trade-unionists, adopted unanimously a recommendation for a permanent employment system. It declared that "in any permanent system the State should be the operating unit of such employment offices and the extension of such offices should be encouraged. The Federal Government itself should not operate local offices or do placement work."

Thus, you perceive, the 1921 Conference unanimously condemned the very thing this bill directs the Federal Government to do. The Conference also made constructive suggestions for collecting statistical informationand securing, through persuasion, but not by compulsion, the cooperation of State and Federal employment agencies. President Hoover, recently referred to the recommendations of this Conference, summarized its conclusions, and, after expressing his intention of organizing a body representative of "business, economics, labor, and agriculture" for further inquiry and action, emphasized the necessity of meeting this problem "by vouuntary cooperation through the great associations representative of business, industry, labor, and agriculture, both nationally and locally."

Two years after President Harding's Conference on Unemployment, a committee of which Owen D. Young was chairman and which included Matthew Woll, vice president of the American Federation of Labor, made an extensive examination of business cycles and unemployment. Referring back to the recommendations of the President's Conference on employment bureaus, this committee concurred in the previous recommendation. It must therefore be evident that, far from receiving support from these official sources, the policy of this bill in having the Federal Government operate local offices is severely condemned by these authoritative and representative expressions.

However, there is a far deeper signifiance attached to such encroachments upon the rights and prerogatives of the States as this and other Federal-aid propositions involve than the question of feasibility, and the problem of how to relieve unsatisfactory labor conditions. That significance resides in the fact that in this country we are drifting more and more away from the views of our fathers, more and more away from that doctrine of the rights of the sovereign States on which the Constitution was founded, more and more away from the cost of liberty, and toward the enervating benefits of a benevolent despotism.

The 10th amendment to the Constitution specifically provides that "The powers not delegated to the United States by the Constitution nor prohibited by it to the States are reserved to the States respectively or to the people." Yet we are continually treaspassing upon these rights of the States and are centralizing in agencies of the National Government the authority that belong to the States. It is not the business of Washington to look out for the general welfare of the people but for the general welfare of the States. It is the business of the States to look out for the general welfare of the pepole. The kind of thing which may be called the general welfare in one State is not called that in another State. Many things are best decided by communities; best, because they cause the most happiness and the greatest development of character. Centralization inevitably leads to despotism and loss of personal liberty. Bureaucracy undoubtedly spells loss of personal responsibility, loss of character. It is in local self-government that we have the best school of citizenship, the best gymnasium for the development of the body politic. We ought to have stronger States, not weaker. The lines between the States should be zealously guarded, not effaced.

If the proponents of the principle of centralization of authority at Washington, of which the bill we are discussing is a striking example, succeed in their efforts to have the Federal Government assume the responsibility for better social welfare, they will eventually succeed in killing off the very spirit of self-reliant citizenry which has made America possible.

Dwelling upon the evils of bureaucratic government in his Williamsburg address in the spring of 1926, President Coolidge said:

> No method of procedure has ever been devised by which liberty could be divorced from local self-government. No plan of centralization has ever been adopted which did not result in bureaucracy, tyranny, inflexibility, reaction, and

decline. Of all forms of government, those administered by bureaus are about the least satisfactory to an enlightened and progressive people. Being irresponsible they become autocratic, and being autocratic they resist all development. Unless bureaucracy is constantly resisted it breaks down representative Government and overwhelms democracy.

The measure under consideration is condemned by reason and authority. Nor can one doubt that the attempt to enforce it would lead to conflict with established State agencies. Let us provide for the collection of information. Let the Federal Government, as the executive branch is already doing, organize its own vast projects in relation to its own public works, so that they may assist in taking up the slack in employment whenever necessary. Let the Government, pursuing the recommendations of the 1921 Conference, seek and obtain the cooperation of the States, as it can so readily do. The President himself has pointed the way through the great business conference which he called into being and which voluntarily organized the employing forces of the Nation to meet in terms of their respective industries and in the light of their exprerience the immediate situation which confronts us. Such a plan makes the individual, the community, the industry, meet its own high responsibilities, instead of crying out: "Let Washington do it." It develops individual and local responsibility. But let us not approve of the proposed bill, which corrupts and destroys community and individual initiative and social obligation.

CON BY REPRESENTATIVE TUCKER

This bill is claimed through its proponents to be a bill to relieve unemployment in the United States, presumably in the industrial world. That such unemployment exists cannot be doubted, and it is stated by competent authorities that the number of unemployed is announced at the startling figure of 4 million. Such a condition is appalling and commands, as it should do, the serious attention of every man engaged in the public service. What these men need and are crying for is a job, an opportunity to work; but an examination of this bill and every section of it will show to the searcher that there is not a job in it. The unemployed are "asking for bread and we are giving them a stone." What they want is an opportunity to work and live.

This bill is open to all sorts of objections. In the first place it lays out the skeleton of another enormous bureau to be established by the Government in conjunction with the States to do a work which belongs either to the Federal Government or to the States, but not to both, and if it belongs to the States this bill, by its sections, seek to take that right and power from the States and put it in control of the Federal Government. It is said that nearly all of the States have employment agencies connected with their labor departments, which is doubtless of service to the people of the several States. They are organized by the legislature of each State, under directions or rules either prescribed by the legislature or by the chief of the labor bureaus. Those rules and directions are made to suit the conditions of the people of each State. This bill seeks to lay down a method of working out this problem under rules and directions prescribed in this bill and to be further prescribed by the Director General to which all the States that come in to participate in it must conform, so that the different sections of the United States, the different labor conditions, are to be denied the privilege of working out their own propositions according to the needs and limitations of their conditions and to accept the conditions of this bill, which may be suitable to one condition in the United States and to all others injurious and baneful.

Sketch in your mind for a moment the different conditions in different sections of the United States as to labor. New England with its highly skilled labor, many of whom are foreigners, many of them French-Canadian, and the great body of foreign laborers in the States of New York, Pennsylvania, and New Jersey; the Negro laborer of the South with his peculiarities and interesting characteristics; the Mexican laborer along the borders of Texas and the South; the Japanese and and Chinese laborers of the Pacific coast; and the vigorous, virile laborers of the great Northwest, many of original American stock; all of these different elements are provided for today under the States, and their laws on this subject are adapted to them and their characteristics; and now we seek to do away with this and establish a national employment agency with its own rigid conditions which might suit some of these sections but would be very injurious to others. As a basic proposition, the bill seeks to destroy the right of the States to adopt their agencies to their own conditions and turn it over to one central agency at Washington; organized, it may turn out to be against those principles which have worked satisfactorily in every State in the Union. Such an organization provides not a job for a single man or woman, and cannot (in the nature of things, even should it be established), work out anything substantial before these unfortunate unemployed shall perish of hunger.

One thing this bill does; it authorizes the appropriation of $16 million out of a depleted and exhausted Treasury, with Secretary Mellon already crying "Hold! Enough!" with a Director General and an Assistant Director General and offices and books and expenditures that it is estimated will take a fourth of the amount annually.

Secondly. The third section of this bill indicates very clearly that the unemployment to be relieved is not confined to those in industrial occupations but to all those engaged "in gainful occupations—men, women, and juniors." The complaint has come to Congress from the unemployed in industrial occupations, and this bill seems to take in all other classes, so that the schoolteacher, the clerk, the chemist, the engineer, the lawyer, the doctor, the preacher, who are engaged in "gainful occupations" are to be put under a Federal employment agency to help them in case their professional lives are a failure. And to make this clear, under section 11(c) the bill declares "in carrying out the provisions of this act the Director General is authorized to provide for establishing employment offices for individual occupants"; and in section 11(a) a provision is made for the establishment of a Federal Advisory Council for the Federal employment agency.

This is a wheel within a wheel; the accumulation of offices, a bureau within a bureau. And not only that, but this same Director General, an officer of the U.S. Government, section 11(a), "shall also require the organization of similar State advisory councils composed of equal numbers of employers and employees." Look at this last provision for a moment: Here is a State that has its own employment agency, organized according to the State law, and presumably on conditions that are suitable to that State, and here is a Director General of the

U.S. Employment Service, an officer of the United States, who is given the power to require a State agency to put into this system this advisory council which they have failed to provide, presumably because they do not want it. Will any lawyer say that such a provision is valid and constitutional? If such be the case, is the State employment agency a Federal or a State agency? If the Federal officer can control it and direct its policy it is no longer a State agency.

Again under section 4, in order to receive the benefits of the appropriations under this bill, each State "shall, through its legislature, accept the provisions of this act and designate or authorize the creation of a State agency vested with all powers necessary to cooperate with the U.S. Employment Service under this act."

It will be observed that under the above the regulations and powers of the State agency are not designated by the Director General, but only this, that such agencies shall contain those powers which are "necessary to cooperate with the U.S. Employment Service."

The Director General has the final say as to the character of the State agencies that have been organized, and unless he endorses its provisions no money can be received by the State. See what that means. Here is a State that makes an appropriation for an employment agency; they make their plans according to the condition of things in their State; they are suitable to those conditions, and an officer of the Federal Government says when those plans are presented to him, "You must change this or that provision if you want to get any money from me," and the head of the State agency is in effect offered the amount of the Federal appropriation coming to the State if he will change the character of the State agency from what the legislature of the State made it to what the Director General, an officer of the United States, requires.

When the change in the State corporation is made as required by the Director General the appropriation which goes to the Director General from the Federal Government for that State is expended in accordance with a law of Congress, for when the State agent accepts the conditions made by the Director General and changes the provisions in the State agency from those which the legislature had put there is not the appropriation made by the State for that State agency spent not according to the law of the State, but according to the law of the United States, made by the Director General? Can any lawyer hold that an appropriation by a State can validly be expended only at the dictation of an officer of the United States? Is it not a self-evident fact that appropriations by a State can only be used for the purposes for which the legislature intended them, and if the changes suggested by the Director General are made, the money of that State is not spent according to the law of the legislature of that State, but under a law made by the Federal Government. It cannot be done legally.

The proponents of this bill seek to justify the change in any of the rules and regulations or law governing the State agency on the ground that they have accepted the bill with all of its provisions in it, and one of them is the right of the Director General to change such provisions. This is not sound because if a State legislature passes a law that affects the validity or destroys one of the essential powers of a State that law is not valid. A State is not allowed to commit suicide.

This bill offers no hope to the unemployed. It is not even a gesture in that direction. There is not a job in it except those for the officers appointed under it to consume one-fourth of the $16 million authorized in it.

CON BY NATIONAL MANUFACTURERS ASSOCIATION

This bill is invalid and unconstitutional. It represents an unsound policy which will not produce the effect which has been suggested.

Let me say first of all that the great problem of regularizing employment in the United States is receiving not merely the sporadic or temporary, but the continuous attention of the executives of manufacturing operations throughout the United States. Our committees are continually engaged in the study of these great problems, in the accumulation and exchange of information between their members.

Something in which we all agree is the incidence of a depression upon our social life and the necessity for intelligent consideration of the remedies that will remove that condition. That is our common anxiety. It is our common obligation. It is our common necessity. And yet how does this bill undertake to remedy that condition?

I want to lay down four propositions with regard to it. First, that it is an unauthorized use of the power of appropriation to control and regulate the internal police policy of the individual States with respect to the establishment and operation of public and, indirectly, of private employment agencies.

Second, the bill confers upon the Federal bureau and an executive officer unprecedented authority to control the use of appropriation in order to substantially establish and determine the policy of the States with respect to the operation of their employment agencies and the placement and movement of labor through standards and regulations exclusively prescribed by such Federal official and bureau.

Third, the policy proposed under the guise of cooperation asserts the right and intention to coerce the individual States into the acceptance of Federal policies as to the operation of their employment agencies by establishing such agencies within the States, whether or not they are desired. Furthermore, such agencies are authorized to be established and maintained in competition and conflict with existing State agencies whenever such States do not agree to accept and operate under the prescribed Federal policy.

And fourth, the policy of this bill is in plain contradiction with the unanimous recommendation of the President's Conference on Employment, September 26 to October 13, 1921, the Committee on Business Cycles and Employment, the Committee on Business Cycles and Employment being a subcommittee of said Conference, and the recommendation of the Senate Committee on Education and Labor Investigating the Causes and Remedies for Unemployment, Report No. 2072, 70th Congress, 2d session, February 25, 1929.

If this were merely a proposal to provide for the appropriation and support of a Federal employment system which undertook to secure the cooperation of employment agencies operating within the State, public in their nature, to coordinate these in order to secure more accurate, more timely, and more relevant information with respect to the State of employment in the United States, we should support and not criticize the existing proposal. But that is not its purpose, is not to be the effect of its operation. It goes far beyond that. Indeed, I do not hesitate to say that it goes further than any legislative proposal that has received the serious attention of Congress in seducing and ultimately undertaking to coerce the States into an adoption of a Federal policy and the acceptance of the control and authority of a Federal official in the regulation of a matter of purely internal police.

The regulation of employment agencies, whether public or private, is a matter for the internal police of the separate States. I think nobody will question that fact, that the regulation of employment agencies within the States is not to be found as a Federal function under any authority of the existing constitution.

Now, when Senator Wagner was discussing the constitutionality of the flexible tariff in the Senate, and he has put this matter so well that I could not improve it, he said:

> The Supreme Court is not the only guardian of the Constitution. Each one of us is under a coequal duty with the members of the bench to defend and maintain the Constitution and vote only in favor of legislation that conforms with the requirements of that instrument. There are innumerable situations where Congress in the last resort is the determinant of constitutionality and where from its decisions there is no appeal to any court. The standard of constitutionality which each one of us must apply is somewhat different from the standard which the Supreme Court employs in passing on legislation. When the constitutionality of a bill is contested in the courts, every doubt is resolved in favor of its constitutionality; every fact which is assumed by Congress to be a fact is not disputed by the court unless the assumption flies violently in the face of reason, and when we in this body pass upon a bill we can not give ourselves the benefit of these doubts. We ought not knowingly to write into a bill assumptions of fact which we know are not true. We ought not to take advantage of the Supreme Court's procedure by framing legislation which in form only is constitutional but which in substance is in deadly conflict with the requirements of our organic law.

And apropos of what has been said with respect to appropriations made by Congress in the past in aid of matters wholly within the States, but which I will show are easily distinguishable from the proposals of this bill, the distinguished Senator said the time was ripe to reject the question and inquired: "Have we not gone far enough, indeed too far, in the direction of centralization?"

This bill authorizes an appropriation of $4 million per annum for 4 years, a total of $16 million. Seventy-five percent of this appropriation, or $3 million per year, is to be apportioned among the several States in the proportion which their population bears to that of the United States. That sum is to be employed in the establishment of public employment offices in the States in accordance with the following plan: Wherever the State, through its legislature, authorizes an existing employment agency or establishes one to cooperate with the Federal agency, the Director General apportions up to his allotment an amount equal to that appropriated by the State for the support of such State agency, not to exceed, of course, 5 percent of the 50 percent of the amount necessary to operate the agency. But—and this is the vital and controlling feature—each State must submit to and receive the approval of the director general of employment for its plan of operation before the State may receive Federal aid; and while receiving it the State agency must continually report operations in such form as the Director General prescribes. He alone determines whether the State offices are, to quote the bill, "conducted in accordance with the rules and regulations and the standards of efficiency prescribed by the Director General." So at this point it is proposed that the Federal appropriation shall be given to the State for the operation of its local exchanges on a 50–50 basis, or for the establishment of new exchanges where none existed before, in return for which the State agrees, through its legislature, that it will operate the public agencies in accordance with the rules and regulations which the Director General prescribes. Whenever such agencies do not conform to the Federal Director's regulations, or when, in the opinion of the Director General, the State agency does not properly expend itself either the Federal aid or the moneys appropriated out of its own State treasury, he may revoke the certificate and withdraw the aid, subject to an appeal to the Secretary of Labor.

The plan of control does not stop, however, with financial persuasion. It goes much further. There is a balance of $1 million per year within the proposed appropriation, and this is available for two major purposes to be expended: first, to establish a system of public employment offices subject to Federal control within the States which have not established such offices; and second, to establish and maintain such offices in States which already possess a system of public employment offices but which have not, through their legislatures, accepted Federal aid upon the terms upon which it is offered.

In such a condition the bill now provides that the Director General may treat with the Governor of the State, pending an agreement to secure the establishment of a Federal bureau in that State. This is where the legislature had not acted, but pending agreement with the Governor—bescause the Governor may not agree to accept the condition. It is a somewhat startling proposition to turn from the legislature, which alone is charged with the declaration of the internal policy of the State with respect to the regulation of employment agencies.

I am not going to take the time to present a great series of incontestable cases that run to the effect that this comes under the operation of the 10th amendment, among the powers prohibited to the Federal Government and reserved to the States and the people. We have had numerous cases of that kind, and one's the case of *Chicago* v. *Kramberger* (238 U.S. 77). I quote that case for only one reason: That if the States desired to exchange their authority with the Federal Government, the Federal Government has no right whatever to take it, and the State has no right whatever to give it. For, said the Supreme Court of the United States in that case, "this power"—that is, the police power—"can neither be abrogated nor bargained away. It is inalienable, even by express grant."

I know it may be said that the police power of the States may be exchanged for Federal appropriations, as indicated in the Maternity Act, but I wish to direct attention to the fact that upon the express recommendation of the President of the United States the policy expressed in the Maternity Act was properly abandoned by Congress, therefore it constitutes no precedent for the continuation of this policy.

The next objection is that the policy of this bill is in plain contradiction with the unanimous recommendations of the President's Conference on Unemployment, the Committee on Business Cycles and Unemployment, being a subcommittee of the Conference, and the recommendations of the Senate Committee on Education and Labor Investigating the Causes and Remedies for Unemployment—and this goes to the very heart of the practical question that is here presented—first, the sources of employment are private, and only to a very small extent public. The National Government itself is a large employer, and it becomes the stimulator of employment, and undertakes to make a contribution to the regularization of employment in periods of depression by timing Government construction to synchronize with that condition. To the extent that that may be actually brought about it is an excellent policy.

But the problem of employment is local largely and the remedy ought to be administered close to the disease. Referring to the somewhat complex problem of how to keep a number of longshoremen at work, note what Seattle did. Seattle solved a local problem in local terms. Every greater problem of employment is largely local.

It does not answer the question to say that you are going to provide for the circulation of labor. Are they going to provide railroad transportation to move workers from place to place? That might result in very serious consequences to particular States. But more than that, we can only move them to a job after the job had been found. Employment agencies cannot make jobs; they can only undertake to connect men with the jobs, and so far as any coordination and cooperation between the National Government and the States is concerned, there must be voluntary action, not coercion, not compulsion. The Federal Government should never under any circumstances enter into the work of local placement.

I want to show the serious defects in the plan that is presented from the standpoint of our traditional system of government; that it undertakes to set up, not a voluntary but a coercive method of forcing the States into the adoption of a Federal policy.

Apart from this question of law, apart from the serious objections to this tremendous endeavor to carry the Federal Government further into this policy I suggest that that is not the best method of approaching this subject; that if this subject is to receive the support of all the great sources of private employment in the United States, it must be presented to them with all the local agencies cooperating under local government and local policy and State authority, in order to enlist that assistance and cooperation. No one remotely in Washington is capable of directing and regulating internal and local affairs of States with respect to a problem as delicate and as far reaching as this and you have only to touch the outskirts of it to realize how many complicated questions are presented.

Voluntary local action coordinated and cooperating under the leadership of the Federal Government of the United States, as it has been doing, can make a great contribution to the solution of this problem, but the ultimate unit of responsibility is local, and the ultimate unit for the responsibility of all our social problems should be kept local. The more you ask citizens to look to Congress and to Washington to settle their own local difficulties, the less responsible you make them and the more difficult become the great social problems that require individual initiative, intelligence, and individual responsibility for their guidance.

CON BY KENNETH COOLBAUGH

Since the fall of 1927 unemployment and a shortage of skilled manpower in the metal trade have been curtailing our buying power and our production.

A large percentage of the idle would be working if they knew of jobs now available elsewhere and could get to them. Much of the shortage would be absorbed if business needing labor knew where to look for it.

"Very well, bring buyer and seller together through a system of employment exchanges. That's simple," says the layman.

Because that is being done with tolerable success on a small scale, thousands believe it can be done just as successfully on a national scale, through a clearinghouse at Washington.

This program interests business for two reasons. It entails increased expenditures of public funds and erects machinery that might be used for purposes even more costly to the taxpayer. Once a government underwrites the policy of registering with actuarial exactitude its unemployed, those so registered will in the end look to that government either to show them jobs or an alternative—unemployment doles.

What then of the need for an increase in the number of public employment offices and for a central exchange at Washington? With what success do public employment offices now existing find jobs for men and men for jobs? What are their inherent limitations, that, shifted to a larger stage, would be even more patent and conclusive?

There are today 209 public employment offices in this country. The majority postdate the war. Each year sees more of them, all underwritten by public funds—Federal, State, or municipal. Each year, too, sees more men and women placed by them into gainful employment and a broader patronage of them by commerce and industry.

Very well, why not double, triple their number?

Because we cannot appreciably change the employment conditions of any community or that of the Nation merely by increasing the number of employment offices.

Only a change in the number or character of industries from which jobs spring can materially change an employment situation. Again, no matter how able its staff, a public employment office can do only a thin percentage of its community job placement work. The reasons are fundamental.

Help-wanted columns, for instance, will long continue as the most convenient meeting place for jobs and the jobless. The number of private or so-called fee-charging offices, too, is constantly increasing. They would not multiply unless an increasing patronage warranted.

Of similar hue are the commissary companies that combine the business of recruiting labor with that of feeding and housing it on hydroelectric, highway, and myriad construction operations. Each year brings more of them to a service that public agencies cannot approximate unless commonwealths be authorized by law to engage in similar activities—with public funds.

How then can a governmental national clearinghouse reflect more than a narrow sector of the entire country's employment picture?

Furthermore, it is a near truism in employment circles that applications for employment are worth little more than the paper they are written on. Glittering exceptions to the contrary, the great majority of employable men who file written applications for work today will, a week or two hence, have found their niche.

Within the past month my office associates have sent letters to 8 lead burners, 21 electricians, 43 electric and acetylene welders, 15 stenographers, 9 draftsmen, 12 plumbers and steamfitters, 18 chauffeurs, and 62 others of miscellaneous vocations, asking them to call regarding specific jobs that have materialized since they filed their applications with us. Total 188.

How many responded in person or by letter? Thirty-three. Less than 20 percent—an average net that is seldom topped by fee-charging agencies or by employment departments of industrial firms. Of these 33 only 7 were finally placed in the jobs we outlined to them.

What becomes of the 80 percent? After filing applications, they find positions; move to other stamping grounds; illness overtakes them; traveling costs or a wife deter them; or from time to time, the job-bearing letters come back to their senders marked, "Not known at," or "No such address."

Conceive then a national clearinghouse striving to transfer 10 or 100 unemployed down-east mechanics to the automobile belt or an equal number of west coast shipbuilders to the Great Lakes. The time factor of itself is a sufficient barrier to a fit performance of the task. The average office or unskilled manual opening today in our thickly settled communities is short lived. In the cities 24 hours is a goodly span for its life.

Before help-wanted pages or employment bureaus can direct the right type of applicants to a plan or office it's an even break that the firm will fill the positions from its quota of daily jobseekers. With the general exception of building trades and textiles the skilled today are the hunted; the tradeless, ever the great majority of the unemployed, are the jobhunters. The former, because of mergers and relocating of industries, are at times temporarily marooned but they soon find their groove with little recourse to outside aid. But the tradeless, needing direction more, are less able to profit by it because their number usually far exceeds the jobs available.

But more formidable looms the perennial query that camps in every labor mart, who will pay the transportation?

For example, the early summer of 1929 saw a surplus of unskilled labor in various sections of the eastern seaboard and a shortage in Detroit. A practical problem such as would confront any national clearinghouse was how to put the idle to work and restore the buying power of thousands of families?

My own office, one of many public employment bureaus, could have sent hundreds. Yet it sent none. The railroad fare deterred the idle from digging down in their own pockets without assurance that definite jobs would be theirs in Detroit; and quite properly, no funds from any public source were available to finance the expedition. We could only tell applicants that the jobs existed. The rest was up to principals.

That is the very core of the whole proposition of moving labor through a central clearinghouse. Labor is only as mobile as the money that moves it. In this particular instance, Detroit employers did what employers so confronted have to do. They themselves advanced the transportation.

The only other method that will accomplish a liaison in labor on a wholesale basis is such as is practiced in Canada. Whether a similar arrangement can or should be inaugurated here is a matter the American industrialist might consider. The Dominion's railways give workers rate reductions up to 30 percent, R. A. Rigg, director of Canada's Employment Service at Ottawa, tells me. The reduced fare is allowed only on the going trip and tickets sold only to persons holding certificates which his department issues after establishing the applicants' capabilities and making sure that jobs will be theirs at destination.

In 1928 more than 43,000 artisans and unskilled workers took advantage of this reduction. In addition to these, every year, 1929 excepted, the railways on their own initiative effect a movement of more than 30,000 harvest workers from the eastern to the prairie Provinces.

Whether or not this method can readily be applied here is at least debatable. So, too, may be the responsibility of passing the necessary regulation under our Interstate Commerce Act. Whatever one's views on Government subsidies, the procedure seems refreshingly free of the taint of class legislation because employers as well as workers and the public in general would profit by it.

Until this problem of transportation cost is adequately plumbed, job brokers will continue to be merely brokers. The greater the distance that separates their principals the more tedious, costly, and futile will be their efforts to bring men and jobs together.

Assuming the transportation riddle solved, to what extent would one State cooperate in transferring its workers to another? Only so far as its public officials felt they could cooperate and still hold the sanction of the community that pays them. In fact, a number of States have laws restricting the recruiting of labor by out-of-State interests.

The only appreciable service that a national clearinghouse could render at present is to release accurate and timely information, not essentially about specific jobs, but rather about employment and industrial conditions—and to release it on the dot.

Each year brings me a striking example, a reliable and up-to-the-day series of bulletins that in 6 months corrals 100,000 men from every State.

They come from the director of the farm labor division of the United States Employment Service at Kansas City and tell when and where wheat cutting starts, of its northward sweep as the season advances, of threshing, corn husking, potato and apple picking; of the prevailing wages, living accommodations and where and when men may apply. Public employment offices in Louisiana, Texas, Oklahoma, Iowa, Kansas, the Dakotas, Minnesota, Washington, Oregon, and Colorado, working through the hub at Kansas City, direct to jobs thousands who otherwise would go through endless wanderings.

A man eager for harvest work can walk into any public employment office or any post office and see for himself in what zone his service will be needed. But it's up to him to get there.

On a similar stage such offices can perform, and do, a similar service in bringing about a contact between workers angling for a permanent niche and employers who need them. A worker, for instance, in nearly any craft can enter a public employment exchange in Pennsylvania, and if he wishes to follow his trade in any one of the commonwealth's largest industrial communities, can gage his chances of getting what he wants where he wants it. At stated periods each of the State's 14 district offices forwards to the capital at Harrisburg a summary of the employment supply and demand in substantially all of the trades and vocations pursued in its community. Each report is then multigraphed and a complete copy of all of them mailed to every office.

In a year's time the aid rendered employers and workers through that medium is considerable. An employer with jobs to fill and the ability to meet workers face to face can ascertain his chances of finding in those districts the workers he needs. He uses the information to a far greater degree than does the job seeker.

Palpably a central clearing house that tries to do on a large scale what its component units do with only moderate success is doomed to even less success than its subsidiaries. A mail-order business in jobs shows results, but only in retail volume. If the task is to be undertaken it must be done, crassly stated, on a wholesale basis.

Putting the idle of one community into jobs in another is, when accomplished, largely the work of private enterprise. When attempted by public agency success depends upon the worker's eagerness for a certain grade of work—as in the case of harvesting—and reliability of information given him.

Employment information to the employer who needs workers, giving him and the job seekers a place to get together and talk things over, is, it seems to me, the cardinal province of a public employment service because employment is the only cure for a labor surplus. The one outstanding service public employment offices can give is to show the employer who needs labor where he can get it and the unemployed where jobs await them.

At best that is about all the real constructive work a labor clearing house could do on a national stage—pass along data that, in moving through many mails and across many desks, would frequently become too stale for other than academic consumption.

For labor is only as mobile as principals make it.

[From "The Nation"—November 30, 1932]

BILLIONS FOR RELIEF

(By Mauritz A. Hallgren)

The darkest winter in many years, perhaps in the country's history, is in prospect for the jobless workers of America. There has been of late no appreciable reduction in the number of persons unemployed, even if we take at their face value the most optimistic of the recent official statements purporting to show an upward trend in business. Compared with last year, the number of unemployed has increased at least 20 percent. Even more discouraging is the proportionately greater increase in the number of destitute persons in the country. Many of the jobless, when first thrown out of work and for some time afterward, had homes to mortgage or sell, insurance to borrow against, or furniture to dispose of in return for food; today few have anything left to fall back upon. Last winte a large part of the relief burden was carried by "the poor helping the poor." Today most of the relatives and neighbors of the jobless are themselves approaching destitution. At best they have only enough for their own requirements. Evidence of this is piling up daily in the headquarters of the social agencies and relief committees throughout the country.

In a majority of the industrial communities the need will be more than doubled this winter as compared with last year, and it must be remembered that the money available for relief last winter was not nearly enough to provide adequately for the bulk of the destitute unemployed. Social workers were virtually unanimous in declaring that the relief extended in a majority of cases was merely sufficient to prevent actual hunger, and even then numerous cases of death from starvation or kindred causes found their way into the public records. Last winter financial assistance came primarily from private sources and local governments. Since then we have passed through a disastrous year, the worst of the 3 years of depression, with the result that many municipalities are bankrupt and many individuals who usually give to their local charities can no longer do so. The greater share of the burden must be carried by other agencies whose financial position is relatively stronger, that is, by the Federal Government and some of the State governments.

Precisely how many persons are out of work? And how many are destitue? The Government cannot reply, for it lacks the machinery with which to determine the exact extent of the unemployment and consequent distress. Even the Department of Labor must depend upon a private agency, the American Federation of Labor, for its estimates of the total number of persons out of work. In his campaign speeches President Hoover mentioned 10 million as the number of unemployed. The Communist Party contends that the total is nearer

16 million. Using as a basis for computation the statistics covering unemployment in its own ranks, the American Federation of Labor estimates that there are at present 11 million men and women out of work in the United States. This estimate is probably conservative, for organized labor is usually much better protected than are the unorganized workers. President Green has predicted that there will be 13 million jobless in the country by January. The Department of Commerce has reported, although on very flimsy evidence it must be admitted, that 1 million new jobs have been created in the last few months. If we take William Green's estimate, and subtract from it the 1 million new jobs which the Department of Commerce believes it has discovered, we find that there will be at least 12 million persons unemployed this winter. The true figure will doubtless be somewhat higher.

How many of the jobless and their dependents are or will be in actual want? This is another question which cannot be answered accurately. Some of the unemployed still have resources of their own or have relatives and friends supporting them, and so are not eligible for relief according to the strict rules being applied by virtually all social agencies and emergency committees. Assistance is now being extended almost exclusively to bona fide paupers. If all the unemployed and their dependents were in want, we should probably have to feed from 48 million to 60 million mouths. However, my observations in many parts of the country last winter and spring indicated that at that time there were five persons in need for every three persons out of work; and the records of many social agencies support this finding. This winter the ratio of destitute to unemployed will be much greater. But on the basis of a 5-to-3 ratio we find that there will be approximately 20 million persons who must be helped. Provision must be made not only to tide that number over the winter months, but to help them for a year or longer. Although unemployment may decrease in the next 12 months, the cumulative effect of the distress upon those who will still have no jobs—the exhaustion of their individual resources, the piling up of their debts, and other factors—makes it morally certain that destitution will continue to increase at a rate that will at least offset any benefits that may be derived from reemployment.

How much money will be required to feed, clothe, and shelter these 20 million unfortunate Americans? Perhaps $100 a year per destitute person will prove sufficient. This is at the rate of $8.33 a month, or 28 cents a day, which surely holds forth no promise of luxuries for the unemployed. I doubt very much that the independent spirit of the American workingman will be broken down by this sum, especially as out of this amount must come not only food, clothing, and shelter, but also fuel, medical attention, recreation, and the administrative expenses of distributing relief. Of course the jobless can get along on less. I have seen them living on the ragged edge of starvation in Fayette County, Pa., at a time when no relief whatever was forthcoming. In Williamson County, Ill., I have seen them trying to keep alive on $1.50 a week for each family of five, a sum which amounts to 4 cents a day for each person. I have seen them happy to get as much as 6 cents' worth of food a day in the municipal bread line in Toledo.

On the other hand, the Charity Organization Society of New York once estimated that the average metropolitan family of five must have $25 a week to keep itself at the "bare subsistence" level. This is at the rate of 71 cents a day per person. It is difficult to believe that any destitute American can for very long maintain himself as a healthy and potentially useful citizen on less than 28 cents a day. Many experienced social workers believe that he ought to have from $300 to $500 a year, if there is not to be serious and perhaps permanent injury to our social organization. Indeed, these authorities hold that a grave injury has already been done through our neglect of the unemployed in the last 2 or 3 years. In any case, not less than $2 billion will be needed to care for our 20 million destitute during the next 12 months. That is an irreducible minimum. It is based on the most conservative estimates of the number of unemployed and their actual need.

Where is this money to come from? Certainly not from private charity alone. The idea that the private agencies could cope with the problem was abandoned 2 years ago. Last winter, according to various estimates by statisticians and social workers, these agencies were carrying between 20 and 35 percent of the load. In May 1931, the private charitable organizations in Chicago provided for more than half of the needy families who were receiving help in that community—and it is important to note that many hundreds of destitute families in Chicago were getting no help at all at that time. In May 1932, the private agencies had all but dropped out of the picture, 95 percent of the relief work in that month being financed by the public treasury. There is a tendency on the part of the private agencies, moreover, to return to other problems which have been neglected of late, but which have greatly increased in importance because of the depression. These include hospitalization, visiting nurse services, child welfare, prevention of crime, and "provision against the misuse of the immensely increased leisure time." The private charities feel that if this work is to be kept up they must turn the unemployment-relief work over to others. Even if the various emergency committees now soliciting funds from private contributors succeed in raising as much money as they did last year for unemployment relief, which seems unlikely, these private funds will be proportionately smaller than they were a year ago, because the need has so greatly increased. We shall presume, however, that the emergency committees and similar private bodies can and will provide 20 percent of the $2 billion that is needed.

The remaining $1,600 million must come from the local or State governments or from the Federal Government. It is clear that the municipalities are not today in a position to help. A few cities and counties can take care of their own, but the larger industrial communities, including Philadelphia, Pittsburgh, Detroit, and Chicago, are unable to do so. Though New York City is facing another financial crisis, there is some hope that $21 million for relief will be appropriated out of its municipal funds. Philadelphia has again had to withhold the pay of its employees. Chicago's destitute since July 27 have been fed and sheltered out of funds provided by the Reconstruction Finance Corporation. Chicago's case is no doubt extreme. If all the other industrial centers where unemployment is heavy were in the same plight, the Federal Government would have to take over the entire relief burden. The outlook in New York City is somewhat less gloomy, for there some hope still exists that help may be obtained from private sources and from the local and State government.

According to a recent police census, there are more than 900,000 persons out of work in New York City—William Hodson, director of the welfare council, puts the total at well over 1 million. On the basis of 5 destitute for every 3 unemployed, there are approximately 1,500,000 who need help. To care for these people at the rate of $100 per destitute person per year, the sum of $150 million would be needed in 1933. According to their present estimates the private charities will spend about $15 million on unemployment relief during the coming year. This depends, of course, upon their ability to raise the necessary additional funds, for they have not now enough money to keep going at the present rate for another 12 months. The Gibson emergency committee hopes to raise an additional $15 million. Thus approximately 20 percent of the total amount needed for the city may possibly be obtained from private sources.

The State has decided to allocate to New York City one-half of the $30 million to be derived from the sale of a special bond issue which was approved by the voters on November 8. The municipal government hopes to be able to appropriate $21 million. Thus the State and city will, if present plans work out, contribute approximately 24 percent of the amount required for relief. Compared with other industrial centers, New York City is relatively well off. Nevertheless, it seems likely that New York will do no more than meet 44 percent of the need of its citizens, and it is essential to keep in mind that not all of the $66 million which private charity and the municipal and State governments may contribute is by any means assured. However, the other 56 percent must be obtained somewhere, and there is no other agency to which to turn except the Federal Government.

If we base our estimates on the Chicago situation, the Federal Government will have to shoulder almost the entire cost of unemployment relief. If we base them on New York, the Federal Government will have to bear 56 percent of the cost, or, in other words, appropriate about $1,120 million for relief. Obviously, there is no way to determine precisely how much Washington must contribute, for constitutional requirements, statutory limitations, bonding powers, financial resources, and the proportion of destitution vary considerably from State to State and from municipality to municipality, and all these factors govern the sums that can be made available locally for relief.

The need is great and immediate. It is no longer a question of who, by moral or legal right, ought to be called upon to support the unemployed. The question today is simply this: Who is financially able to extend promptly and with some degree of adequacy the relief that is desperately needed? There is little doubt that the private charities and local governments will do what they can, for they are much closer to the people who are suffering than are the State legislatures and Congress. But these local agencies have not the means or the credit standing to carry on the relief work even on the inadequate scale reached last winter. The credit position of some of the States is still excellent; that of the Federal Government is the best in the country. While a few of the States can help to a much greater extent than they have been doing, none is in a position to act so quickly and effectively as Washington.

[From "The Coming of the New Deal," Houghton, Miffin Co., publishers]

PROLOG: 1933

(By Arthur M. Schlesinger, Jr.)

The White House, midnight, Friday, March 3, 1933. Across the country the banks of the Nation had gradually shuttered their windows and locked their doors. The very machinery of the American economy seemed to be coming to a stop. The rich and fertile Nation, overflowing with natural wealth in its fields and forests and mines, equipped with unsurpassed technology, endowed with boundless resources in its men and women, lay stricken. "We are at the end of our rope," the weary President at last said, as the striking clock announced the day of his retirement. "There is nothing more we can do."

Saturday, March 4, dawned gray and bleak. Heavy winter clouds hung over the city. A chill northwest wind brought brief gusts of rain. The darkness of the day intensified the mood of helplessness. "A sense of depression had settled over the capital," reported the New York Times, "so that it could be felt." In the late morning, people began to gather for the noon ceremonies, drawn, it would seem, by curiosity as much as by hope. Nearly one hundred thousand assembled in the grounds before the Capitol, standing in quiet groups, sitting on benches, watching from rooftops. Some climbed the bare, sleet-hung trees. As they waited, they murmured among themselves. "What are those things that look like little cages?" one asked. "Machineguns," replied a woman with a nervous giggle. "The atmosphere which surrounded the change of Government in the United States," wrote Arthur Krock, "was comparable to that which might be found in a beleaguered capital in war time." The colorless light of the cast-iron skies, the numb faces of the crowd, created almost an air of fantasy. Only the Capitol seemed real, etched like a steel engraving against the dark clouds.

On the drive from the White House to the Capitol, the retiring President, his eyes lowered, his expression downcast, did not try to hide his feelings. The Nation which had helped him rise from a poor Iowa farm to wealth and power, which he had repaid with high-minded and unstinted service, had rejected him. "Democracy is not a polite employer," Herbert Hoover later wrote. "The only way out of elective office is to get sick or die or get kicked out."

It was customary for the retiring President to ask his successor for dinner on the night of the 3d of March; but Hoover had declined to issue the usual invitation. At length, the White House usher insisted that the President-elect must be given the opportunity to pay his respects. Instead of the traditional dinner, a tea was arranged for the afternoon of the 3d. It had been a strained occasion in the Red Room, complicated by fruitless last-minute discussions about the banking crisis. Finally the President-elect, recognizing that Hoover was not in the mood to complete the round of protocol, politely suggested that the President need not return the visit. Hoover looked his successor in the eye. "Mr. Roosevelt," he said coldly, "when you are in Washington as long as I have been, you will learn that the President of the United States calls on nobody." Franklin Delano Roosevelt, hurrying his family from the room, returned to the Mayflower Hotel visibly annoyed. "It was * * *" a close friend later reported, "one of the few times I have ever seen him really angry."

Now Hoover sat motionless and unheeding as the car moved through crowded streets toward the Capitol. Doubtless he assumed the occasional cheers from the packed sidewalks were for Roosevelt and so not his to acknowledge. But for Roosevelt, sitting beside him in the open car, these last moments belonged to the retiring President; it was not for the President-elect to respond to the faint applause. On they drove in uncomfortable silence. Passing the new Commerce Building on Constitution Avenue, Roosevelt hoped that at least this sight might tempt the former Secretary of Commerce into an exchange of amiabilities. When a friendly remark produced only an unintelligible murmur in reply, the President-elect suddenly felt that the two men could not ride on forever like graven images. Turning, he began to smile to the men and women along the street and to wave his tophat. Hoover rode on, his face heavy and expressionless.

The fog of despair hung over the land. One out of every four American workers lacked a job. Factories that had once darkened the skies with smoke stood ghostly and silent, like extinct volcanoes. Families slept in tarpaper shacks and tin-lined caves and scavenged like dogs for food in the city dump. In October the New York City Health Department had reported that over one-fifth of the pupils in public schools were suffering from malnutrition. Thousands of vagabond children were roaming the land—wild boys of the road. Hunger marchers, pinched and bitter, were parading cold streets in New York and Chicago. On the countryside unrest had already flared into violence. Farmers stopped milk trucks along Iowa roads and poured the milk into the ditch. Mobs halted mortgage sales, ran the men from the banks and insurance companies out of town, intimidated courts and judges, demanded a moratorium on debts. When a sales company in Nebraska invaded a farm and seized two trucks, the farmers in the Newman Grove district organized a posse, called it the "Red army," and took the trucks back. In West Virginia, mining families, turned out of their homes, lived in tents along the road on pinto beans and black coffee.

In January, Edward A. O'Neal, an Alabama planter, head of the Farm Bureau Federation, bluntly warned a Senate committee, "Unless something is done for the American farmer we will have revolution in the countryside within less than 12 months." Donald Richberg, a Chicago lawyer, told another Senate committee a few weeks later, "There are many signs that if the lawfully constituted leadership does not soon substitute action for words, a new leadership, perhaps unlawfully constituted, will arise and act." William Green, the ordinarily benign president of the ordinarily conservative American Federation of Labor, told a third committee that if Congress did not enact a 30-hour law, labor would compel employers to grant it "by universal strike." "Which would be class war, practically?" interrupted Senator Hugo Black. "Whatever it would be," said Green, "it would be that * * *. That is the only language that a lot of employers ever understand—the language of force." In the cities and on the farms, Communist organizers were finding a ready audience and a zealous following.

Patrick J. Hurley, Hoover's Secretary of War, ordered a transfer of troops from a small Texas post to Kentucky. Tom Connally of Texas, rising in the Senate, accused the War Department of deliberately concentrating its armed units near the larger cities. "The Secretary of War, with a glitter of fear in his eye," Connally reported, "referred to Reds and possible Communists that may be abroad in the land." The mayor of New York, newly inaugurated, sought to reassure his city: "You're going to have a mayor with a chin and fight in him. I'll preserve the metropolis from the Red army." But the next week a group of Communists shoved their way though a police line before the brownstone house on East 65th Street where Franklin D. Roosevelt was making his plans for the future. Eleven Democratic leaders were having their picture taken on the front steps; they stepped nervously into the house as the Communists shook their fists and shouted, "When do we eat? We want action!" (Among the politicians were Cordell Hull and James F. Byrnes; they would have more to do with Communists before they were through.) The police with a flourish of nightsticks cleared the street.

Elmer Davis reported that the leading citizens of one industrial city—it was Dayton, Ohio—had organized a committee to place how the city and the country around could function as an economic unit if the powerlines were cut and the railroads stopped running. Over champagne and cigars, at the Everglades in Palm Beach, a banker declared the country on the verge of revolution; another guest, breaking the startled silence, advised the company to "step without the territorial boundaries of the United States of America with as much cash as you can carry just as soon as it is feasible for you to get away." "There'll be a revolution, sure," a Los Angeles banker said on a transcontinental train. "The farmers will rise up. So will labor. The Reds will run the country—or maybe the Fascists. Unless, of course, Roosevelt does something."

But what could he do? In February 1933, the Senate Finance Committee summoned a procession of business leaders to solicit their ideas on the crisis. Said John W. Davis, the leader of the American bar, "I have nothing to offer, either of fact or theory." W. W. Atterbury of the Pennsylvania Railroad: "There is no panacea." Most endorsed the thesis advanced by the permanent elder statesman Bernard Baruch: "Delay in balancing the budget is trifling with disaster." And, as they spoke their lusterless pieces, the banks began to close their doors. "Our entire banking system," said William Gibbs McAdoo in exasperation, "does credit to a collection of imbeciles."

But bankruptcy of ideas seemed almost as complete among the intellectuals. "My heartbreak at liberalism," wrote William Allen White, "is that it has sounded no note of hope, made no plans for the future, offered no program." On the eve of the inaugural, a leading American theologian pronounced an obituary on liberal society. His essay was written, said Reinhold Niebuhr, on the assumption that "capitalism is dying and with the conviction that it ought to die." Let no one delude himself by hoping for reform from within. "There is nothing in history to support the thesis that a dominant class ever yields its position or its privileges in society because its rule has been convicted of ineptness or injustices." Others, in their despair, could only yearn for a savior. Hamilton Fish, the New York Congressman, spoke for millions when he wrote to Roosevelt late in February that in the crisis we must "give you any power that you may need."

The images of a nation as it approached zero hour: the well-groomed men, baffled and impotent in their double-breasted suits before the Senate committee; the confusion and dismay in the business office and the university; the fear in the country club; the angry men marching in the silent street; the scramble for the rotting garbage in the dump; the sweet milk trickling down the dusty road; the noose dangling over the barn door; the raw northwest wind blasting its way across Capitol plaza.

In the Capitol, the President-elect waited in the Military Affairs Committee room. Sober and white faced, he sat in silence, glancing at the manuscript of his inaugural address. Huey Long, the Senator from Louisiana, glimpsed him and started to sweep into the room; then paused at the threshold and tiptoed away. Ten minutes before noon Roosevelt started down the corridor toward the Senate, only to be stopped. "All right," he said, "we'll go back and wait some more." When the moment arrived, he was to ride in his wheelchair to the east door; then walk 35 yards to the speaker's stand.

A few moments before, in the Senate Chamber, the new Vice President, John Nance Garner, of Texas, had taken his oath of office. There followed a rush from the Senate to the inaugural stand outside. The mass of people, swarming into the narrow exit from the east doors of the Capitol, blocked the runway. In a moment the congestion was hopeless. Garner and the retiring Vice President, Charles Curtis, of Kansas, had meanwhile reached the stand. The Texan, with no overcoat, shivered in the harsh wind; he borrowed a muffler and wrapped it around his neck. Near him Curtis disappeared into the depth of his furcoat, looking steadily at the floor, apparently lost in memory. Gradually, invited guests began to force their way through the jam: members of the new Cabinet, half a dozen Senators, the new President's wife, his mother, his tall sons. Eventually Charles Evans Hughes, the Chief Justice of the United States, made his appearance, erect and stately, a black silk skullcap on his head, his white beard stirred by the wind and his black robe fluttering about his legs. In a leather-upholstered chair to the left of the lectern sat Herbert Hoover.

The tension in the crowd mounted steadily with the delay. Presently a Supreme Court attendant arrived bearing the family Bible of the Roosevelts. Then, at last, the bugle sounded; and Franklin Delano Roosevelt, intensely pale, leaning on the arm of his eldest son James, walked slowly up the maroon-carpeted ramp. The Marine Band, in its scarlet jackets and blue trousers, finished the last bars of "Hail to the Chief." There was a conclusive stir in the crowd, spread over 40 acres of park and pavement; then cheers and applause. Mrs. Woodrow Wilson waved a handkerchief. Bernard Baruch leaped upon a bench and swung his black silk hat. Josephus Daniels, the new President's old chief, his eyes wet with tears, pounded vigorously with his cane. A few rays of sunshine broke for a moment through the slate clouds upon the inaugural stand.

The Chief Justice read the oath with dignity and power. Instead of returning the customary "I do," Roosevelt repeated the full oath. ("I am glad," Hughes had written when the President-elect suggested this. "* * * I think the repetition is the more dignified and appropriate course.") The family Bible lay open to the 13th chapter of the First Corinthians. "For now we see through a glass, darkly; but then face to face: now I know in part; but then shall I know even as also I am known. And now abideth faith, hope, charity, these three; but the greatest of these *is* charity."

Six days before, Roosevelt in his Hyde Park study, writing with pencil on a lined, legal-sized yellow pad, had made a draft of his inaugural address. Waiting in the Senate committee room on inauguration day, he added a new opening sentence to his reading copy: "This is a day of consecration." But, as the great crowd quieted down, the solemnity of the occasion surged over him; he said, in ringing tones, "This is a day of national consecration."

Across the country millions clustered around radio sets. The new President stood bareheaded and unsmiling, his hands gripping the lectern. The moment had come, he said, to speak the truth, the whole truth, frankly and boldly. "Let me assert my firm belief that the only thing we have to fear is fear itself—nameless, unreasoning, unjustified terror which paralyzes needed efforts to convert retreat into advance." The speaker flung back his head. "In every dark hour of our national life a leadership of frankness and vigor has met with that understanding and support of the people themselves which is essential to victory."

The bounty of nature, he continued, was undiminished. "Plenty is at our doorstep, but a generous use of it languishes in the very sight of the supply." Why? Because the rulers of the exchange of mankind's goods "have failed through their own stubbornness and their own incompetence, have admitted their failure, and have abdicated. * * * They have no vision, and when there is no vision the people perish. The money changers have fled from their high seats in the temple of our civilization." The crowd delivered itself of its first great applause. "There must be an end," Roosevelt went on, "to a conduct in banking and in business which too often has given to a sacred trust the likeness of callous and selfish wrongdoing." Again the crowd shouted.

"This Nation asks for action, and action now. * * * We must act and act quickly. * * * We must move as a trained and loyal army willing to sacrifice for the good of a common discipline, because without such discipline no progress is made, no leadership becomes effective." "It may be," he said, "that an unprecedented demand and need for undelayed action may call for temporary departure from that normal balance of public procedure." If Congress should fail to enact the necessary measures, if the emergency were still critical, then, added Roosevelt solemnly, "I shall ask the Congress for the one remaining instrument to meet the crisis—broad Executive power to wage a war against the emergency, as great as the power that would be given to me if we were in fact invaded by a foreign foe." The crowd thundered approval in a long, continuing demonstration—the loudest applause of the day.

Roosevelt—"his face still so grim," reported Arthur Krock, "as to seem unfamiliar to those who have long known him"—did not acknowledge the applause. Nor, indeed, did all share the enthusiasm. Some who watched the handsome head and heard the cultivated voice mistrusted what lay behind the charm and the rhetoric. "I was thoroughly scared," the retiring Secretary of State, Henry L. Stimson, wrote in his diary. "* * * Like most of his past speeches, it was full of weasel words and would let him do about what he wanted to." Edmund Wilson, covering the inaugural for the New Republic, saw "the old unctuousness, the old pulpit vagueness," the echoes of Woodrow Wilson's eloquence without Wilson's glow of life behind them. "The thing that emerges most clearly," wrote Wilson, "is the warning of a dictatorship."

But the unsmiling President showed no evidence of doubt. "We do not distrust the future of essential democracy," he said in summation. "The people of the United States have not failed. In their need they have registered a mandate that they want direct, vigorous action. They have asked for discipline and direction under leadership. They have made me the present instrument of their wishes. In the spirit of the gift I take it." Herbert Hoover stared at the ground.

The high, clear note of the cavalry bugles announced the inaugural parade. Franklin Roosevelt, in the presidential car, waved greetings to the crowd along the way—men and women now curiously awakened from apathy and daze. The horsemen wheeled into line, and the parade began.

In Washington the weather remained cold and gray. Across the land the fog began to lift.

INAUGURAL ADDRESS, MARCH 4, 1933, OF FRANKLIN D. ROOSEVELT

I am certain that my fellow Americans expect that on my induction into the Presidency I will address them with a candor and a decision which the present situation of our Nation impels. This is preeminently the time to speak the truth, the whole truth, frankly and boldly. Nor need we shrink from honestly facing conditions in our country today. This great Nation will endure as it has endured, will revive and will prosper. So, first of all, let me assert my firm belief that the only thing we have to fear is fear itself—nameless, unreasoning, unjustified terror which paralyzes needed efforts to convert retreat into advance. In every dark hour of our national life a leadership of frankness and vigor has met with that understanding and support of the people themselves which is essential to victory. I am convinced that you will again give that support to leadership in these critical days.

In such a spirit on my part and on yours we face our common difficulties. They concern, thank God, only material things. Values have shrunken to fantastic levels; taxes have risen; our ability to pay has fallen; government of all kinds is faced by serious curtailment of income; the means of exchange are frozen in the currents of trade; the withered leaves of industrial enterprise lie on every side; farmers find no markets for their produce; the savings of many years in thousands of families are gone.

More important, a host of unemployed citizens face the grim problem of existence, and an equally great number toil with little return. Only a foolish optimist can deny the dark realities of the moment.

Yet our distress comes from no failure of substance. We are stricken by no plague of locusts. Compared with the perils which our forefathers conquered because they believed and were not afraid, we have still much to be thankful for. Nature still offers her bounty and human efforts have multiplied it. Plenty is at our doorstep, but a generous use of it languishes in the very sight of the supply. Primarily this is because rulers of the exchange of mankind's goods have failed through their own stubbornness and their own incompetence, have admitted their failure, and have abdicated. Practices of the unscrupulous moneychangers stand indicted in the court of public opinion, rejected by the hearts and minds of men.

True they have tried, but their efforts have been cast in the pattern of an outworn tradition. Faced by failure of credit they have proposed only the lending of more money. Stripped of the lure of profit by which to induce our people to follow their false leadership, they have resorted to exhortations, pleading tearfully for restored confidence. They know only the rules of a generation of self-seekers. They have no vision, and when there is no vision the people perish.

The moneychangers have fled from their high seats in the temple of our civilization. We may now restore that temple to the ancient truths. The measure of the restoration lies in the extent to which we apply social values more noble than mere monetary profit.

Happiness lies not in the mere possession of money; it lies in the joy of achievement, in the thrill of creative effort. The joy and moral stimulation of work no longer must be forgotten in the mad chase of evanescent profits. These darks days will be worth all they cost us if they teach us that our true destiny is not to be ministered unto but to minister to ourselves and to our fellow men.

Recognition of the falsity of material wealth as the standard of success goes hand in hand with the abandonment of the false belief that public office and high political position are to be valued only by the standards of pride of place and personal profit; and there must be an end to a conduct in banking and in business which too often has given to a sacred trust the likeness of callous and selfish wrongdoing. Small wonder that confidence languishes, for it thrives only on honesty, on honor, on the sacredness of obligations, on faithful protection, on unselfish performance; without them it cannot live.

Restoration calls, however, not for changes in ethics alone. This Nation asks for action, and action now.

Our greatest primary task is to put people to work. This is no unsolvable problem if we face it wisely and courageously. It can be accomplished in part by direct recruiting by the Government itself, treating the task as we would treat the emergency of a war, but at the same time, through this employment, accomplishing greatly needed projects to stimulate and reorganize the use of our natural resources.

Hand in hand with this we must frankly recognize the overbalance of population in our industrial centers and, by engaging on a national scale in a redistribution, endeavor to provide a better use of the land for those best fitted for the land. The task can be helped by definite efforts to raise the values of agricultural products and with this the power to purchase the output of our cities. It can be helped by preventing realistically the tragedy of the growing loss through foreclosure of our small homes and our farms. It can be helped by insistence that the Federal, State, and local governments act forthwith on the demand that their cost be drastically reduced. It can be helped by the unifying of relief activties which today are often scattered, uneconomical, and unequal. It can be helped by national planning for and supervision of all forms of transportation and of communications and other utilities which have a definitely public character. There are many ways in which it can be helped, but it can never be helped merely by talking about it. We must act and act quickly.

Finally, in our progress toward a resumption of work we require two safeguards against a return of the evils of the old order: There must be a strict supervision of all banking and credits and investments, so that there will be an end to speculation with other people's money; and there must be provision for an adequate but sound currency.

These are the lines of attack. I shall presently urge upon a new Congress, in special session, detailed measures for their fulfillment, and I shall seek the immediate assistance of the several States.

Through this program of action we address ourselves to putting our own national house in order and making income balance outgo. Our international trade relations, though vastly important, are in point of time and necessity secondary to the establishment of a sound national economy. I favor as a practical policy the putting of first things first. I shall spare no effort to restore world trade by international economic readjustment, but the emergency at home cannot wait on that accomplishment.

The basic thought that guides these specific means of national recovery is not narrowly nationalistic. It is the insistence, as a first consideration, upon the interdependence of the various elements in and parts of the United States—a recognition of the old and permanently important manifestation of the American spirit of the pioneer. It is the way to recovery. It is the immediate way. It is the strongest assurance that the recovery will endure.

In the field of world policy I would dedicate this Nation to the policy of the good neighbor—the neighbor who resolutely respects himself and, because he does so, respects the rights of others—the neighbor who respects his obligations and respects the sanctity of his agreements in and with a world of neighbors.

If I read the temper of our people correctly, we now realize as we have never realized before our interdependence on each other; that we cannot merely take but we must give as well; that if we are to go forward, we must move as a trained and loyal army willing to sacrifice for the good of a common discipline, because without such discipline no progress is made, no leadership becomes effective. We are, I know, ready and willing to submit our lives and property to such discipline, because it makes possible a leadership which aims at a larger good. This I propose to offer, pledging that the larger purposes will bind upon us all as a sacred obligation with a unity of duty hitherto evoked only in time of armed strife.

With this pledge taken, I assume unhesitatingly the leadership of this great army of our people dedicated to a disciplined attack upon our common problems.

Action in this image and to this end is feasible under the form of government which we have inherited from our ancestors. Our Constitution is so simple and practical that it is possible always to meet extraordinary needs by changes in emphasis and arrangement without loss of essential form. That is why our constitutional system has proved itself the most superbly enduring political mechanism the modern world has produced. It has met every stress of vast expansion of territory, of foreign wars, of bitter internal strife, of world relations.

It is to be hoped that the normal balance of Executive and legislative authority may be wholly adequate to meet the unprocedented task before us. But it may be that an unprecedented demand and need for undelayed action may call for temporary departure from the normal balance of public procedure.

I am prepared under my constitutional duty to recommend the measures that a stricken nation in the midst of a stricken world may require. These measures, or such other measures as the Congress may build out of its experience and wisdom, I shall seek, within my constitutional authority, to bring to speedy adoption.

But in the event that the Congress shall fail to take one of these two courses, and in the event that the national emergency is still critical, I shall not evade the clear course of duty that will then confront me. I shall ask the Congress for the one remaining instrument to meet the crisis—broad Executive power to wage a war against the emergency, as great as the power that would be given to me if we were in fact invaded by a foreign foe.

For the trust reposed in me I will return the courage and the devotion that befit the time. I can do no less.

We face the arduous days that lie before us in the warm courage of national unity; with the clear consciousness of seeking old and precious moral values; with the clean satisfaction that comes from the stern performance of duty by old and young alike. We aim at the assurance of a rounded and permanent national life.

We do not distrust the future of essential democracy. The people of the United States have not failed. In their need they have registered a mandate that they want direct, vigorous action. They have asked for discipline and direction under leadership. They have made me the present instrument of their wishes. In the spirit of the gift I take it.

In this dedication of a nation we humbly ask the blessing of God. May He protect each and every one of us. May He guide me in the days to come.

NOTE.—Those who lived through the months immediately preceding March 1933 do not require a description of the desperate condition into which the American economy had fallen since the crash of 1929. In the succeeding pages I have endeavored to enumerate, in the form of notes to the various printed public papers, the different steps taken by my administration to correct or ameliorate the desperate condition of agriculture, industry, finance, and labor which had resulted from 4 years of depression.

By Inauguration Day, 1933, the banks of the United States were all closed, financial transactions had ceased, business and industry had sunk to their lowest levels. The widespread unemployment which accompanied the collapse had created a general feeling of utter helplessness. I sought principally in the foregoing inaugural address to banish, so far as possible, the fear of the present and of the future which held the American people and the American spirit in its grasp.

For many months the people had looked to Government to help, but Government had looked away. I promised a program of action: first, to put people to work; and second, to correct the abuses in many fields of human endeavor which had in great measure contributed to the crisis. I promised action immediately, stating that if necessary I would ask for and would use all the war powers of the Executive to wage war against the emergency.

We kept our promise that we would act at once. By our action, we started to dissipate the fear and panic which had laid a paralyzing hand upon the finances, the business, the industry, and the agriculture of the Nation.

[From the "American Economic Review," March 1934]

ECONOMICS AND THE NATIONAL RECOVERY ADMINISTRATION

(By J. M. Clark—Columbia University)

The NRA went into effect at the peak of a revival containing speculative elements bound to lead to a recession, which has since come. The work-sharing program has succeeded in increasing employment and payrolls during the setback of general business, while retail buying has been correspondingly sustained.

The act is criticized as sacrificing a revival in the field of capital equipment to sustain demand for consumers' goods. However, the Securities Act and monetary uncertainty contain more unmistakable handicaps; and the removal of obstacles in these fields may be sufficient. As to the NRA, danger lies not only in the raising of industrial costs, but in the measures taken to compensate by protecting profits.

Surplus labor will not soon disappear even with revival; the development of the domestic market will not automatically keep pace with increasing productive power; hence there is continuing need to deal with these problems and to attempt to base recovery more on diffused consumer purchasing power and less on an inherently temporary boom in capital equipment.

The organization of the NRA, viewed as a social constitution for industry, is only a step, though in line with what is probably an inevitable development.

It is undoubtedly too early [December 1933] to assess the specific results of the National Industrial Recovery Act and to determine precisely where it succeeded and where it failed, where its purposes were maintained consistently and where they were perverted by the force of special interests, evaded or turned into sheer waste motion by meaningless formal compliance. The act is hailed as a means of recovery and condemned as a fatal handicap. It is variously described as the long-needed introduction of guiding purpose into our economic system, or as one more example of muddling through with a jumble of ill assorted and possibly conflicting objectives brought together under no clearer master rule than that of expediency. It is disparaged as a temporary expedient which cannot pass away too quickly, and pointed to as an enduring achievement on which history will look back as the formative stage in the revolution which introduced a social constitution into industry. As to this last, naturally, we must wait for history to give the verdict.

After nearly 4 years of depression, there was increasing doubt whether the "natural forces of recovery" were competent to restore prosperity, and increasing skepticism of the soundness of any prosperity which might be restored in this way. Purchasers' reserves seemed exhausted, removing one possible source of an initial upward impulse. Conservative economists were disposed to admit that this was far more than merely an unusually severe depression of the customary type; while others less conservative were announcing the signal of the final breakup of the capitalist system, not immediately, but after a few more depressions of increasingly catastrophic character. There was plenty of reason for thinking, not simply in terms of immediate recovery, but of a type of recovery which would not be merely one more step toward final dissolution. And from this standpoint there was reason for distrusting the customary business processes of revival.

Among the forces of depression which might possibly afford a handhold for policies of recovery, an outstanding one was the worldwide collapse in the price structure, with its especially heavy incidence on our exportable agricultural products. Hand in hand with this went the disruption of international trade, which must either be overcome or furnish the setting in the face of which recovery must be made. Unusually heavy surplus plant capacity was another fact conditioning the process of recovery. And a new importance was attaching to the problem of widely diffused purchasing power.

During the postwar prosperity, businessmen had widely accepted the doctrine that such purchasing power was essential to the prosperity of large-scale industry; and now they were seeing that force reversed and working against them in a paralyzing way. The vicious circle of idle industry due to shrunken purchasing power and shrunken purchasing power due to idle industry, had been elevated from a theory to a condition too pressing to be ignored. Whether or not more diffused purchasing power was essential to a revival of some sort, there was strong support for the idea that it was essential to a sound one. These factors were important in the background of the effort toward recovery.

The Nation emerged from the banking holiday of March 1933 into a revival of productive activity which went forward at a remarkable speed until July. This was part of a movement which was general among the nations of the world, but was intensified in the United States. Prices rose moderately in other countries; while here, under the influence of the policy of monetary depreciation, the wholesale price level rose approximately 17 percent from February to July[1] and costs of living rose only a fraction of that amount. The response to this situation was conditioned by a buoyant mood for which President Roosevelt can claim credit. His inaugural address captured the imaginations even of persons not disposed to be lightly stampeded, and his genuinely skillful and courageous handling of the banking crisis did nothing to dispel this feeling.

There was, however, little solid industrial ground for so sudden and large a revival. It was probably due in large part to psychological and speculative factors, including buying in anticipation of rising prices, and of demands expected as a result of increased public works. Such a strong movement at such a time could hardly continue without a setback, and the setback which has actually come is not to be wondered at.

In the favorable setting of this revival the National Industrial Recovery Act was framed, becoming a law on June 16, when the revival had reached its climax. Thus the act was not imposed on a completely prostrate industrial system, nor was it the sole reliance for initiating recovery. However judgments may differ as to its effect, a sound appraisal must keep these facts in mind.

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[1] See F. C. Mills, "Aspects of Recent Price Movements," bulletin, National Bureau of Economic Research, Oct. 31, 1933, table II. The bulk of the increase came in the 3-month period April to July.

Needless to say, the act did not stand alone, but was part of an extraordinarily wide-reaching program. It included monetary depreciation, banking reconstruction, relief for borrowers, farm credit reorganization, more stringent control of the issue of securities, subsidized restriction of crop acreage, transportation coordination, reorganization of the budget, and other measures.

In the midst of these various activities comes the National Industrial Recovery Act, consisting of two grand divisions: One is a program for the spending of $3,300 million for public works; and to this program the machinery of the Civil Works Administration has recently been added. The other is a novel program for industrial control.

The basic structural feature is the setting up in each industry and trade of representative organizations which are taken into partnership with the Government in carrying out the purposes of the act. They are to adopt codes subject to public approval, while the President has the power to prescribe a code if no acceptable one has been formed by the industry itself. A temporary reemployment agreement or "blanket code" was drawn up, to which employers were urged to subscribe pending the formation of codes for their specific industries. A basic requirement for the codes was a provision protecting the right of collective bargaining and forbidding coercion in favor of company unions, but not otherwise taking sides in this issue or making collective bargaining compulsory.

Under this scheme a massive structure of boards has been set up, including code authorities, advisory boards for industry, labor and consumers, compliance boards, and labor boards. Employers complying with the act are granted the use of the device of the "blue eagle"; and purchasers are urged to trade with those displaying this device.

The main objectives sought by the use of this machinery are:

(1) Work sharing is brought about by limitations on the number of hours in the standard working week. This is done under provisions aiming to force the employer to take on additional workers in sales or service employments where total hours of service might be shortened or the desired result otherwise circumvented. For instance, in the "blanket code," hours for clerical and sales forces are limited to 40 per week, while hours of operation for the store or services itself must not be reduced below 52. The general retail code allows longer working hours if hours of operation are above the minimum, but maintains the principle of a spread of at least 12 hours per week between hours of store operation and hours of work for employees, while the hours worked must be continuous except for 1 hour off for lunch. This still leaves it technically possible to stagger the employees's hour in such a way as to leave the store short handed for 1 hour after opening, 1 hour before closing and 2 hours at lunch time, without taking on additional clerks.

(2) Coordinate with the reduction of working hours is the attempt to prevent total dollar earnings per worker from falling with the shortened week; and in particular the setting of minimum wage rates for the lowest paid occupations.

(3) Prohibition of child labor is extended.

(4) The trades are given the opportunity to prevent destructive and anarchistic competitive practices by setting up codes of fair com-

petition, free from the prohibition of the antitrust laws, but subject to Government approval like all other code features.

(5) As to prices, the hope and purpose has been that the trades should at least temporarily absorb the increased costs imposed by the labor features of the codes, hoping to be compensated by the gains from increased output. And the general rule was adopted that increases in prices should be limited to actual increased costs. Under the "blanket code" employers are bound—

> Not to increase the price of any merchandise * * * by more than is made necessary by actual increases in production, replacement or invoice costs of merchandise since July 1, 1933, or by taxes or other costs resulting from action taken pursuant to the Agricultural Adjustment Act, and in setting such price increases, to give full weight to probable increases in sales volume and to refrain from taking profiteering advantage of the consuming public.

This general price policy is combined with special treatment where special and urgent need appears. The whole policy of valorization for outstanding agricultural staples is of a totally different sort. The petroleum code provides for limitation and allocation of output and price fixing; several other codes allot output on a quota basis or fix prices; a number forbid selling below cost and at least one code undertakes to limit installations of plant equipment. This whole realm of controls over specific prices has not yet been integrated with the monetary policy aiming at a large increase in the general price level. On the face of things, these two realms of policy are mutually inconsistent.

(6) Where imported goods are found to compete with domestic products in such a way as to prevent the successful operation of industries under the codes, additional protection may be imposed by quota restrictions or increased taxes on imports.

So much for the the direct and obvious objectives of the act. We may further ask: What are its basic guiding purposes; what ends is it intended to promote? And we shall reach the kernel of our inquiry when we come to grips with the question: What ends is the act calculated to promote in its actual operation—what results are likely to follow from it?

According to the statement of the purposes of the act given in title I, section 1, it aims—

> To remove obstructions to the free flow of interstate and foreign commerce which tend to diminish the amount thereof; and to provide for the general welfare by promoting the organization of industry for the purpose of cooperative action among trade groups to eliminate unfair competitive practices, to promote the fullest possible utilization of the present productive capacity of industries, to avoid undue restrictions of production (except as may be temporarily required), to increase the consumption of industrial and agricultural products by increasing purchasing power, to reduce and relieve unemployment, to improve standards of labor, and otherwise to rehabilitate industry and to conserve natural resources.

Thus the act is presented as, in the main, an instrument of recovery from the immediate depression, but with certain general purposes which may go beyond this immediate need. In signing the act, President Roosevelt stated: "Industry has long insisted that, given the right to act in unison, it could do much for the general good which has hitherto been unlawful. From today it has that right."[2] The act thus includes an organization which may be allowed to prove by trial and error what specific purposes it can serve and what results, desirable or otherwise, it is calculated to bring about. To that extent the purposes of the act cannot be judged in advance of actual results.

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[2] Quoted in Beard and Smith, "The Future Comes," p. 145.

For purposes of analysis, the possible objectives of the act can probably best be classified as follows:

(1) Relief, in the broad sense of applying the existing national dividend, or national volume of production, to cover the needs of the otherwise destitute through some kind of sharing between those who have sources of income and those who do not. Construed in this way, the program of shorter hours and work sharing comes under the head of relief; and it is difficult to see what other purpose it clearly subserves.

(2) Immediate recovery: The increase in the volume of production and general business activity.

(3) More enduring stability in production, business activity, employment, and economic conditions in general. This carries the highly desirable and important purpose of attempting to insure by some means that any recovery that may come about shall be of a more stable sort than previous periods of "prosperity" which have ended in further depressions, and have apparently done so for reasons rooted in the character and type of "prosperity" which they represented. This purpose falls naturally into two parts: Immediate policies bearing on the character of the initial revival, so far as that character may go to determine how stable and enduring it is likely to be; and the setting up of instruments or the testing of policies which may later be used to control the revival after it has developed further.

(4) Generally desirable objectives which have no necessary or vital connection with the control of booms and depressions, improvements in social welfare or in competitive conditions, or the setting up of machinery through which such improvements may be brought about in the future.

These purposes are all legitimate and even necessary; but to weld them together in one program is not a simple and easy task. The main criticism now directed against the act is to the effect that measures pertinent only to longrun ends and general social reforms have been allowed to get in the way of the immediate requirements of recovery, until this primary objective is in danger of being seriously handicapped if not entirely defeated. The attack is centered on the cost-increasing features of the act, and their effect on the course of business revival.

On its face the course of events points toward a simple conclusion. There was a strong revival. It turned into a heavy setback about the time the codes began going into effect. Thereafter numbers of workers employed and total payrolls continued to increase, while volume of production declined. Something is not as we should wish it to be, and circumstantial evidence points to the NRA codes as being better measures of relief than of revival. Being duly cautious about accepting circumstantial evidence, let us examine the course of events a little more in detail.

The revival in the United States was part of a worldwide movement affecting both production and prices. The Federal Reserve Board's index of industrial production—an index of a sensitive type—shows a revival dating from the low point reached in July 1932 when the index stood at 52.8 percent of normal. After holding a rise of about 8 points for the last 4 months of 1932, there was a decline culminating in March 1933 and presumably due to the banking crisis. After dropping to 54.6 in March, the index rose to 61 in April and continued steadily upward until it reached 91 in July. Then began a decline which was slightly less rapid than the rise, and which appears to have been checked after a loss of about half the ground gained. Both the advance and the decline were most marked in such basic industries as steel and lumber, while general consumers' goods and retail trade were not so strongly affected. On the decline, retail trade has apparently held up well, and even increased recently in region in which wages had previously been especially low and where the code rates represented larger increases than in other sections.

The course of wholesale prices reflects the same movements which show in the index of industrial production, but naturally with some differences. Both the first revival of production from the low of July 1932 and the second from the low of March 1933 were preceded by upward turns in wholesale prices. The low point of wholesale prices for the whole depression came in February 1933 but the sharp rise did not begin until April and lasted until July, tapering off in August and September (when industrial production was already declining) and then coming to a standstill.

The crucial months for judging the effects of the NRA codes are July, August, and September. The first code approved was in the cotton textiles industry, which had already been working in a similar direction and was therefore prepared. This code was approved July 9, going into effect July 17. The bulk of the codes went into effect in August and September. But the explanation that the codes were responsible for the whole reversal of a rapid recovery is too simple.

As to prices, one must remember that in late July and especially in early August the dollar temporarily ceased to fall on the foreign exchanges and began to rise. Thus the force of foreign-exchange depreciation was entirely removed, and it was natural enough that the rise in domestic prices changed from a gallop to a crawl, and that the group of raw products of American farms actually declined.

As to industrial production, it has already been pointed out that the extremely rapid rise was in itself suspicious and pointed to temporary and speculative causes at work. Recoveries from such long prostration do not happen in that way. It far outdid the remarkable quick rebound from the sharp but short depression of 1921; and in 1933 this was too good to be true. In fact, several special features probably contributed to bring it about. The recovery which was already underway had been checked by the banking crisis culminating in March; but consumers still got goods; and when regular financing was restored, there were inventories to be replenished and back production to be made up. Before this impulse was exhausted, monetary depreciation was doing its work, and materials were being bought in anticipation of future increases in prices, which had been well-nigh promised by the announced Government policy. Seldom do speculators have anything so nearly approaching a guarantee. To this impulse was added the effort of some producers to build up a stock of goods at existing costs of production, before the codes should raise costs. And the prospect of billions of dollars to be spent on public works gave a special impulse to this same sort of thing in the field of building materials. So when the codes began to go into effect, productive needs had been to a considerable extent anticipated: some of the work belonging to those months had already been done. Taking all these factors into account, it is difficult to escape the conclusion that a very large part of the 1933 revival of production represented sheer inflation, much of which was bound to be squeezed out as soon as the codes went into effect. So the shrinkage may have meant little more than that a part of the production to meet requirements of August and September had been crowded into June and July. With this surplus worked off and prices at least momentarily stabilized, November and December mark only the beginning of the real test whether industry can and will maintain a continued revival under the conditions imposed by the NRA codes.

One contrast between the upward movements in prices before and after July has been pointed out by Prof. F. C. Mills.[3] Until July, the movements tended on the whole toward bringing the commodities which had lost ground most heavily back nearer to their predepression or their prewar relation to other commodities. In September and August, the reverse was the case. For example, raw products of American farms had lost ground the most heavily of any of the groupings made by Professor Mills; they made the greatest gains in the revival of February-July 1933; and in August and September they lost ground, not only relative to other groups, but absolutely. Thus there was a setback to the move to restore the relative purchasing power of farm products as compared to other things. Whether this setback was a misfortune or not is debatable; and in any case the part which may have been played by the NRA in helping to bring it about, through raising costs of producing nonfarm products, cannot easily be disentangled from monetary influences.

In the immediate attempt to increase employment and payrolls, the act seems to have succeeded. The best estimates place reemployment at about 4 million since the beginning of revial.[4] Mr. William Green, in an article published December 17, estimated that since March, 3,600,000 workers had been added to the payrolls of private industry and 600,000 employed on public works. During the spring revival, reemployment went on at a rate of 500,000 per month, while in August and September, with the codes going into effect and business declining, the rate of reemployment was 850,000 per month.[5] So far as one can judge from data not wholly comparable, the increase in numbers on the payrolls during the spring revival was considerably less than the increase in production itself. Under the NRA, Mr. Green estimates that average hours per week in industry declined from 43 to 37½, while average wages per hour rose from 43½ to 52½ cents. This indicates a rise of 5 percent in average weekly earnings, while costs of living went up approximately 6 percent, indicating a decline of about 1 percent in real wages per worker. Thus total payrolls, measured in real purchasing power, went up by practically the full amount of the increase in numbers employed. This could hardly fail to produce a favorable effect on retail trade and the production of consumers' goods.

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[3] See "Aspects of Recent Price Movements," cited above.

[4] Cf. statement of Henry I. Harriman, president of the National Chamber of Commerce, made on November 8, "Proceedings, Academy of Political Science," January 1934, p. 77.

[5] "National Planning Labor's Point of View," New York Times, Dec. 17, 1933.

The effect on producers' goods is more doubtful. The experiment constitutes a thoroughgoing trial of the diffused-purchasing-power theory, applied to industry, not in a state of uttter prostration, but in the early stages of revival, complicated by the fact that the revival was inflated by temporary speculative elements and anticipatory production.

The case against this payroll-raising program as a measure of recovery has perhaps been most strongly stated by Leonard P. Ayres, in his book, "The Economics of Recovery." The argument runs substantially as follows. Business fluctuations center in the production of durable goods: capital equipment and durable consumers' goods. Fluctuations in the field of perishable consumers' goods are relatively small and correspondingly less important. A general revival requires a revived demand for capital equipment, and the essential conditions for this are: a prospect of profits, and freedom from obstructions to the mechanism for raising capital funds. There is now a potential demand for private capital, not so much perhaps in expanding productive capacity, of which there is generally a surplus, as in making good postponed maintenance, replacing obsolescent units and installing improved ones. For this private demand the public works program is not an adequate substitute.

In raising wage disbursements and thus increasing costs, the NRA is sacrificing the prospect of profits, while the stringent controls in the field of securities issues, the new banking act, and the fear of inflation, all combine to put obstacles in the way of capital flotations at just the time when business has not the reserve force to overcome them. Thus the NRA is sacrificing the larger value, capital expansion, to the smaller, consumers' purchases, to an extent which threatens to nip the incipient revival in the bud.

By way of developing this side of the argument, it may be added that, if demand for private capital equipment revives, consumers' purchasing power will follow as the stimulated industries increase their payrolls and disburse their enlarged incomes. And it may be further urged that a dollar added to payrolls is only $1 coming to buy goods, while a dollar added to profits, at such a time as this, may add to itself several dollars drawn from the sources of elastic credit, and throw them all into the markets for capital goods. The point may further be made that the time when it is really important for wage disbursements to get their full share and profits not to be swollen disproportionately is after the revival gains more headway and is in danger of developing into an unhealthy boom. And even if the art of stable prosperity is not learned during the present revival, past experience indicates that the next few depressions are likely to be relatively mild affairs, which will give us a breathing space in which to evolve means of dealing with the problem, if only we can rise out of the present really threatening state of paralysis.

The case is a strong one; but the conclusion that the NRA should be abandoned does not necessarily follow. It may be that the really serious obstacles to revival are those not arising from this act itself. If the issue of securities is crippled by unduly stringent regulations, and if business is hampered by exaggerated uncertainties as to the future of the monetary standard, these things should be removed. And these changes may prove sufficient to permit a revival, slower perhaps than the conventional type (which is merely the prelude to another depression), but with compensating features which might, if properly handled, help to make it more enduring. On the other hand, if improperly handled, as may more easily happen, they may make future instabilities worse.

As to the NRA itself, its cost-increasing features do not stand alone, but are balanced by features making it possible to protect profits or even, perhaps, to increase them. In fact, it may be argued that as the operation of the codes develops, there is less danger that profits will be sacrificed than that they will be too well protected, by measures involving both limitation of output and preservation of inefficient producers. The administration has been wise in approving few codes of this general character. The fewer the better, and better still if these few can be got rid of when recovery is established. This is the first and best line of defense against a serious danger. The limitation of output as a general policy is emphatically not the way to bring about lasting plenty by putting unused productive powers to work.

Once such codes are admitted, power still exists to prevent industry from abusing its price-fixing privileges. But the task bristles with difficulties, both technical and human, and far more than appear on the surface. Clearly, excessive profits as judged by ordinary standards may be prevented; indeed at present there is little danger on that score. But there is another danger into which systems of this character have regularly fallen: that of stabilizing their own profit margins at the expense of stability of output, with the result of increasing the strains of business fluctuations on the rest of the economic system. Experience has shown that cartels are an unstabilizing and not a stabilizing element in the total business structure.

Even the prohibition against selling below cost, innocent as it appears, has its dangers. Cost includes overhead burdens which may or may not include return on investment, and may be allocated on a basis of actual or normal output. Allocation on the basis of present shrunken output would swell the burden per unit so far as to make it questionable wisdom to fix such a unit cost as a minimum below which no sale could go. And if interest on investment were included, such a rule would fix a depression minimum for all concerns actually higher than average concerns can secure on the average of bad times and good. Will this be low enough to stimulate revival, or will it be a vicious barrier in the way?

More serious still, perhaps, is the danger of protecting the costs of the inefficient producer. The rule against cutting below one's own costs may operate in this way, and the quota system emphatically does so. And the inefficient producer stands in the way of the whole project of increasing labor's share in the national dividend. The more efficient producer can well bear such a shift, but the least efficient cannot. Therefore, if the thing is to be done successfully, it is absolutely essential that the spread between the most efficient and the least efficient be reduced.

The forces eliminating the inefficient have long been acting too weakly. Trade organizations may make this situation worse; but they may possibly help it. They will not eliminate their least efficient members, but it is not unthinkable that they might be induced to help toward making more efficient methods more general. Even this will encounter resistance, since the more efficient have a vested interest in their margin of superiority. But against this stands the fact that the least efficient are often the most demoralizing competitors, in price and in labor standards, standing in the way of improved conditions which the better elements desire. If the NRA organization can help in this matter, it will justify itself. If it hinders, it will defeat the ends of increased wages, and leave the economic system even more unworkable than it was before.

This is strong language, but the issue is important; the more so as some increase in the share of the Nation's income going to labor, by increased wages or otherwise, is probably one of the things necessary to reasonable economic stability in the decades just ahead.

On the whole, it appears that we are on safer ground if we regard the act (except for the public works program which is attached to it), not as a means to stimulate immediate recovery, but rather as partly a measure to substitute work sharing for relief, and partly a means of controlling the quality of a recovery already begun, with a view to putting it on a sounder and more enduring basis. If it merely avoids actually hampering recovery in the early stages, it may still justify itself, though even on this basis it faces a sufficiently difficult task. Viewed in this way, it might logically have been put into effect at a later stage of revival, as already suggested. But if the thing were to be done at all, it probably had to be done when the mood for action was strong. And the work-sharing feature of the program would not have waited, in any case, and would hardly have been acceptable without the other elements.

While it is true that revivals center on durable goods, including capital equipment, it is also true that they represent, not a sound and enduring increase in demand, but a concentration of expansion which cannot in its very nature be maintained. In fact, lacking certain conditions which are never present, it is a mathematical necessity that such a concentrated spurt will increase productive capacity faster than total demand, and must therefore taper off and come to an end. When this happens, the volume of production in the capital goods field falls off, and with it the volume of purchasing power arising from it; and a depression sets in. It is this outcome which needs to be avoided, and more diffused consumer spending power during revival is at least a means rationally related to this end. In the long run, more than this is needed to control future fluctuations.

As to the prospect of a breathing space with relatively mild industrial fluctuations, this is to be combined with another prospect, amounting to a moral certainty; namely, that the problem of surplus labor power will remain with us at least through the next peak of business activity; and we should be wise to plan for a surplus through the revival after next. The next revival is not likely to restore the per capita real income of 1928–29; while owing to improved methods we shall be able, unless we deliberately refrain, to produce a given output with fewer labor hours than during the last great boom. One reason for this none too optimistic prediction is that the type of foreign market from which we were profiting in 1922–28 is gone, with no apparent possibility of returning. Consequently our domestic market will not include the purchasing power flowing from those who were making money by producing goods for export. It will, of course, include the purchasing power which is not being used to buy foreign bonds; but this may have a hard time finding a satisfactory outlet, via either consumption or capital investment.

Another reason is that there seems to be no great new thing, comparable to the railroad or the automobile, and in such a stage of development as to be ready for a very great expansion within, let us say, the next 2 years. Transatlantic aviation with floating aerodrome-hotels is hardly in this class, though it may well have a considerable future. Far more generally useful would be modern plumbing, vacuum cleaners, and electric refrigerators for every family—and also far harder to bring to pass in a few years, granted that the necessary productive power existed and would otherwise go to waste.

We face a difficult task in developing a domestic consuming market to match our increasing productive power. "Natural economic forces" will absorb increased productive power, but apparently not as fast as it is now coming into being. Thus it is pertinent to have in existence an organization which is at least attempting to do something more about the problem than to promote a temporary boom in capital equipment, and is paying as much attention to the potential demand for bathtubs as for transatlantic aerodrome-hotels. In short, while the NRA is an emergency measure, the need to which it responds is enduring.

In conclusion, while it is not a priori impossible for a present-day economic system to lift itself by its bootstraps, the attempt is not without dangers. A few cautionary propositions may be laid down in dogmatic form, for lack of space to develop them:

(1) Increased prices due to purely monetary causes can stimulate activity, but the effect will quickly pass off unless a more solid basis is afforded.

(2) Transfers of purchasing power from one group to another, brought about by public fiat, may stimulate activity under given conditions, but they bear a heavy burden of proof.

(3) Increases of wages at the expense of the necessary minimum of business earnings (whatever that may be in a given case), or increases of prices by monopolistic means at expense of demand, are not revival measures at all, but the opposite. Exceptions may be made for prices which are increased from a genuinely ruinous level to one not above what is essential to that elusive "necessary minimum of business earnings," but the perpetuation of the price-raising machinery will make future instabilities worse and not better.

A final word as to the organization of the NRA, regarded as the possible germ of a "social constitution for industry." It is in line with a movement which is probably inevitable, and which, when it has developed far enough, may well bring about a far-reaching transformation in the character of industry. But the present writer has a wholesome respect for the requirements of an adequate "social constitution for industry" which makes him cautious about accepting the claims of any current proposal—including such proposals as he has himself been able tentatively to formulate.

Employers necessarily interested in profits may feel a genuine responsibility toward the broader bearings of what they do—may even recognize that such an interest is a necessity for them as a group. But the urgent pressures of their private business necessities are paramount when things come to a conflict. A "social constitution" must organize a group whose interests as a group are in harmony with those of the society. So far as hours and conditions of labor are concerned, organizations of employers in single trades may do much good, since here some at least of the worst evils arise from demoralized and demoralizing competition, acting in an imperfect market with grossly unequal force. But when it comes to questions of output, prices, and profits, the case is different. And the basic social interest for the purpose now in hand is the interest in output in using our productive resources to produce goods, not in protecting or enlarging the income of any group as such.

The interest of a single businessman under genuine competition is to increase production, simply because competition will not let him gain by limiting production. The group that includes all the employers in one trade is proverbially the group whose interest lies in limiting production; and organizations of this sort, intended though they may be to promote social ends, have this basic force to reckon with. Once we have broadened the unit of organization beyond the single competing business enterprise, we must go a great deal further before we shall have a group whose interest as a group lies in increasing production rather than in limiting it. The group must incorporate—and not merely in an advisory capacity—labor, consumers, public. In fulfilling this requirement, there is need for more thoroughgoing representation of these groups on existing code authorities, but this alone will probably not be sufficient. We have not yet evolved an adequate form of constitutional organization suited to this situation, so different from those which form the setting of our system of political representation.

More practical perhaps is a different kind of enlargement. Two great objectives are: stablized demand for durable goods, and sustained general purchasing power. If one business were to stabilize its demand for plant equipment, it would help stablize the demand exerted by the members of the equipment industries, but the benefits would be diffused among industries in general. Or if this business pays high wages, it sustains consumers' purchasing power, but again the benefits are diffused among industries in general. Industry as a whole gets back what it contributes to such policies as this, but single industries do not. Hence their interest in such policies is far weaker than that of business as a whole. Under the circumstances, it is remarkable that the philosophy of high wages has made the headway it has. But so long as it is merely a philosophy, it will not go as far as the interest of business reqiures.

To that end, it needs to be converted from a mere philosophy into an organized interest, wide enough to include those who contribute and those who benefit, on a basis somewhat more solid than mutual expressions of good will. This requires a genuine affiliation of consumer-goods industries, capital-goods industries and credit institutions, capable of stabilizing capital investment and demand for durable goods, sustaining diffused purchasing power and reducing the spread between the most efficient and the least efficient producers.

Such a system involves reciprocal agreements between capital-equipment industries and their customers, in which the capital equipment industries would use systematic price concessions in the duller periods to make it worthwhile for their customers to assume the costs and risks of putting their requirements on something like a scheduled basis. The cooperation of credit institutions would be also required to provide a basis on which orders might be maintained in what would otherwise be a depression, as well as to restrain tendencies to expansion of the boom type. This is a form of customer representation which, difficult as it plainly is, might yield tangible results. It might require the setting up of quotas for equipment expansion as distinct from output, and would almost certainly call for a more coherent organization of credit institutions themselves. In attempts to stabilize demand for durable consumers' goods, control of credit would have to bear the brunt of the burden.

Industry may or may not be capable of evolving a workable constitution of this sort. Toward such an end, the organization set up under the National Industrial Recovery Act is only a step, portentous as that step may now appear. It is an intermediate stage, at which some of the worst dangers of the whole movement are encountered, while the full benefits are not yet within reach.

[From the Yale Review—December 1934]

FIFTH WINTER OF UNEMPLOYMENT RELIEF

(By E. Wight Bakke)

For the fifth consecutive winter the United States faces "emergency" unemployment relief on a grand scale. The unyielding dimensions of the "emergency" challenge our confidence in the ability of our industrial machinery to provide a satisfactory standard of living for all of us. In financial terms, in human terms, in terms of repercussion upon government, the problem of providing for the men without jobs hangs like a great black cloud over the Nation's future.

The total public obligations—Federal, State, and local—incurred strictly for unemployment relief in the year 1933 and the first half of 1934 averaged $894,302,510 for a 12-month period. This is exclusive of the $824 million spent upon CWA projects. It is exclusive of the money spent for the Civilian Conservation Corps. It is exclusive of the money spent by the Public Works Administration on emergency housing and other public works. It is exclusive of the money spent by the Department of the Interior for the setting up of subsistence homesteads.

Consider for a moment what this means. It means that we are each year spending strictly for unemployment relief a sum which would almost build two Panama Canals. It does not quite equal the billion dollars and more that we spend for interest on and redemption of obligations for past wars. Had the relief expenditures been met out of current income, we should have spent a quarter of a billion dollars more than we collected from current Federal income taxes in 1933.

Consider the magnitude of the problem in human terms. In July of 1934 about 17 million persons (1 out of every 7 of our population) were receiving relief. In 39 States more than a tenth of the total population, in 15 States more than a sixth, in 9 States more than a fifth, and in 1 State, South Dakota, over a third of the people were existing on the money given them from public funds. The Federal Emergency Relief Administration unemployment census of October 1933, indicated a still more serious aspect of these numbers. Over 50 percent of the families were in eight States, and over 33 percent of the families were in the four States of Pennsylvania, New York, Illinois, and Ohio.

Furthermore, this problem will be greatly increased this winter. The burden will probably be greater than any we have borne in the last 4 years. The reason for that is clear. Four winters of severe economic weather have exhausted the resources of a large part of our working population. During the winter of 1933–34, two-thirds of the new applicants for relief had never received it before 1933; and fresh recruits are being constantly added to the relief army. Even if only the normal number were to fall victims to the hazards of fortune this year, the proportion of those to whom that event would mean actual destitution would be large. When we view the prospects of the next 9 or 10 months, we cannot do so with any confidence that an uptake in business will result in the lessening of our relief load.

A problem of such magnitude demands a relief program which raises issues of tremendous importance. Is our program adapted to the needs and characteristics of the unemployed group? Can we pay the bill? Are we being realistic in allocating the responsibility for paying that bill? Can we administer such a vast system efficiently? Is our relief effort aiding the unemployed in the maintenance of character and morale? Is this effort also consistent with business recovery within the present economic organization, or is it tending to perpetuate itself, setting up, as it were, an economy within an economy? Is it accompanied by and in harmony with efforts to stimulate private business and reabsorb the unemployed into the regular industrial army? We can well afford to give serious attention to these issues.

The first fact we run into when we ask whether this system is adapted to the nature of the unemployed is that we have few facts. We do not even know definitely just how many unemployed we have. Certainly we do not know how they should be classified, according to employability, length of time out of work, and occupation. The administration is at the moment summarizing a survey of the relief cases of 80 cities in the United States. But even granting the adequacy of such surveys, they tell us very little about the total number of the unemployed.

One fact which should dominate our thinking is that the unemployed on relief are not the only workers out of jobs. During July and August of this year there were approximately 4 million families on public funds. Roughly, this means that there were at least 6 million unemployed in these families. If we accept the American Federation of Labor estimate of unemployment for this same period, there were between 3 and 4 million out of jobs for whom no provision was made. Our relief measures do little for a family until it becomes destitute.

The one big attempt to date to deal with this group on the road to destitution was the CWA project. How well did that succeed in meeting their problem? The original plan was that half the number on CWA projects should be drawn from relief rolls and half from those without work, but with no respect to their needs. As a matter of fact, the large majority came from relief rolls. Only about 500,000 of the 4 million eventually engaged were hired through the U.S. Reemployment Service. How close this group was to the borderline of destitution is shown by the fact that practically all taken from relief rolls and a high proportion employed through the national employment service returned to the relief rolls as soon as the CWA project was completed.

There were many criticisms of the CWA. It was said that political patronage dominated the assignment of work; that wages were too high in certain sections, making it difficult for local employers to secure labor at an economic rate; that the work was inefficient. But the fact remains that the CWA was a serious effort to spread a net for those in transition from jobs to charity. The coming winter will see a renewed need for such a net.

The Public Works Administration has been kept from extensive functioning as a relief organization. That policy should be maintained. The PWA can best focus on providing jobs for those who are not yet on relief. Whatever the rearrangement of responsibility during the coming winter, this group of men now moving from wages to relief should not be forgotten. They are daily augmenting the relief rolls as they arrive at acknowledged destitution.

It is relevant here to discuss the place of unemployment insurance, for it would provide another excellent method of meeting the needs of this transition group. So far only one State has made such a measure a part of its attack on unemployment. Present indications are that the coming session of Congress will attempt to direct legislation by the States to this end.

Unemployment insurance is a method of compensation for loss of wages through unemployment which assumes a very definite picture of the workers of the country going about their business of getting a living. It assumes that adults go daily to work for wages; that they normally expect and get a full week's work; that they normally expect and get work throughout the year; that when they do fall or step out of a job, it is for a brief period, and that then they find another job. It assumes that the period of unemployment is ended as quickly as possible by the desire and initiative of the individual. Such a routine is still characteristic of the large majority of our workers. It may be characteristic of those who have recently left jobs.

Unemployment insurance is adapted only to the case of a man who has been jobless for a short period. For such a period, a simple cash subsidy to help him maintain his normal standard of living and industrial quality is his greatest need, and this subsidy could be provided by insurance. After a man has been without work for 6 months or more, he begins to lose his sense of participation in the community life, and his skill at work; his health tends to deteriorate; his whole world threatens to crumble. In this case, he needs assistance other than a cash subsidy. He needs work in line with his occupational qualifications. He needs in many cases industrial rehabilitation. Any sound program for dealing with unemployment should take these facts into account during this period of 6 months to a year when a man would be receiving a compensation for his loss of work. After that time, carefully planned relief work may be called upon not only to supply his financial necessities but to rehabilitate his physique, his skill, and his social status.

It is well to recognize that the immediate effect of unemployment insurance so conceived—and, indeed, all forms of social insurance—will not be to lighten our relief load. The primary object of such measures is to prevent that load from increasing. A predominant majority of those now on relief have been out of jobs so long that they will not qualify or could not qualify for unemployment insurance. The net result of any unemployment insurance act proposed at present would be simply to spread a net for those who are in transition from work and wages to relief, and to keep them from augmenting the group who are at the moment destitute.

Another characteristic of the unemployed group is that an unknown but certainly large number of them form a permanent problem. Many of them will be left stranded even by a return to normal industrial activity. Depressions increase efficiency of some plants and remove others completely from competition through bankruptcy. Certain industries like coal are probably facing a permanent contraction of market. Men have grown 5 years older since 1929, and many who were considered employable 5 years ago would not now be so considered. The normal rate of retirement of successful or superannuated workers has decreased sharply, leaving the competition even greater in the upper age range. He is indeed optimistic who foresees a business boom which will absorb all those workers who found places in 1929, many of whom through personal handicaps or lack of industrial qualities were even then dangerously near the unemployable stage.

What is to be done for these stranded workers? Local communities will undoubtedly keep many of them on permanent relief rolls. But it is hard to believe that any large group of workers who before 1929 were effectively related to the industrial machine, and who undoubtedly retain a good deal of their industrial equipment and ability, must be considered as definitely retired from the industrial ranks. Certainly they have productive possibilities which no community can afford to waste, let alone support in idleness.

So far our only answer to this particular question has been the subsistence homestead plan for the surplus workers in decaying industries like coal. Garden homesteads near industrial centers have been established for such workers who, it is hoped, will continue with one foot on the soil and the other in part-time industrial employment. The homestead projects look forward to a time when these workers will be supported or be supporting themselves with a minimum amount of money. But experience both here and in England indicates that little success will attend these projects unless they offer an opportunity for wage earning or for cash sale of products to provide goods or services which cannot be self-provided. Will such measures meet the need? Probably not. Funds at the command of the Division of Subsistence Homesteads in the Department of the Interior, would permit rehabilitation of about 10,000 families. Any development of this program must necessarily move slowly. Training for its special activities is necessary. The right cooperation with industry must be established. Some way must be found to produce salable and noncompetitive goods. All these factors set limits to the immediate usefulness of such measures.

It is probable that any well-advised attempt to meet the problem of the worker whom an efficient private employer no longer needs will be in one of two directions. He may be absorbed into enterprises in which he is producing for his own use or for the use of others who are similarly employed, or he may be enlisted in something akin to a national labor force, which could be organized and set to work on community jobs. The dangers to private industry in such alternatives are obvious. It may be that this is the price we shall have to pay for our inability to use these men in normal industry.

Related to the question of whether the relief program is adapted to the kind of unemployment we are facing is another question. Are we meeting the social and psychological as well as the physical needs of the unemployed and their families? It is beyond the scope of this article to discuss the extent to which relief allowances supply the minimum requirements of clothing, food, and shelter. During June the average amount of relief per family in the United States was about $30 in the principal cities, and about $18 in the rest of the country. Localities vary, and this average includes a number on partial relief. But it can scarcely be argued that there is any sizable surplus above the supply of mere physical necessities in the cash allowances which people on relief are getting.

This problem of meeting the jobless man's social needs is primarily one of the kind of aid provided rather than the amount. Is he to be offered commodities or cash?—a job or a dole? If it is a job, is it one adapted to his skill? Are private agencies which are equipped to help the worker with his problems other than maintenance, being adequately supported? These are the issues involved.

There are many complications in the question of cash relief as against commissary or grocery-order relief. The first is the most expensive. Colcord and Kurtz have estimated that in a locality in which a commissary distribution would cost $20.69 per family per month and a grocery order would cost $25.31 for the same period, cash relief would cost $27.32. If our dominant problem were strictly one of financial economy, commissary or grocery-order relief would clearly be preferable. But there is danger in it, for the removal of all choice in the matter of expenditure, and so of all responsibility for such choice, from any group is exceedingly demoralizing; it is liable to make the recipient a pauper in attitude as well as in fact. This is not a small matter. It is decidedly important that the last barrier between the individual and complete public dependency should be maintained, and that wherever possible help in the form of cash should be given preference over the other types of direct relief.

From the social standpoint, provision of work is, of course, preferable to an outright dole, and should be used as far as is practicable. But here, also, the argument of cost weighs heavily. It is estimated that it costs about one-third more to provide work for the unemployed than to give them the same amount of financial aid by direct relief. Supplying materials for work is a knotty question, although it should be noted that expenditures for materials serve as a stimulus in production to private enterprise. And again in this method of dealing with unemployment there is danger of demoralization. Relief work is frequently inefficient. It is bound to be more or less inefficient. The worker knows this, and the effect of his knowledge is unfortunate.

But the fact remains that in our world a job is the core around which normally every man's daily activities are organized. Our habits and our thinking are adjusted to that fact. Our social institutions assume that fact. The rewards of work are many, and certainly they are not limited to the wages received. Without such rewards as social status, physical exercise, and mental satisfaction that a job affords, we disintegrate and tend to lose our useful relations to our fellow citizens.

The present relief administration is fully alive to the necessity of providing men with jobs wherever possible. Mr. Hopkins, in particular, is definitely committed to the policy of work rather than doles. Preliminary reports indicate that during June when some 3,167,000 families and individual persons were receiving direct relief, about 1,480,000 families and single persons were receiving work relief. The plans for the coming winter propose an enlargement of the work-relief group. Furthermore, every effort is being concentrated on suiting the work projects to the skills and abilities of the unemployed. Provision is being made for white-collar workers. Funds are available for the employment of experts to devise new projects. Considerable expansion is still necessary in this program. Such expansion is well fitted to the stage of unemployment in which most workers on relief now find themselves. They have been out of work so long that they are sadly in want of the renewed discipline, exercise, and satisfaction of a job.

A major problem in the adaptation of relief to the social needs of the unemployed is how to provide training and discipline for the young men who have not secured jobs. During the last 4 years, a new generation of young people has come into the labor market. About 2¼ million American boys and girls annually reach 16. Not all of them, of course, seek work, but a large enough proportion does so to give one pause. To the solution of this problem the CCC has undoubtedly contributed in solid fashion. By the end of September 850,000 boys had had the experience of these camps. In addition to advancing the Nation's forestry program from 5 to 15 years, the camps have made a contribution to the physical health and the social stability of all who have come within their scope. The physical and social results probably justify a large expansion of this activity if any useful work can be found for them to do.

On the whole, it appears that the will and the understanding requisite for meeting the social and psychological as well as the physical needs of our unemployed exist. But in our preoccupation with our huge public relief program we must not allow ourselves to minimize the importance of maintaining adequately our private charitable and character-building agencies, for their long and fruitful experience with personal problems of adjustment in an insecure world is more than ever essential to the welfare of the community.

In any discussion of ways of relief, there is the ever recurrent challenge, "Can we afford them?" I do not see how that question can be answered, except by saying that we can afford them if we choose to. National expenditures are open to choices dominated by many motives. It is misleading to pick out any type of expenditure and say we cannot afford to go beyond such and such a point in it. Nations, like individuals, may add to expenditures in one column and subtract in another. Moreover, the revenues of government may be augmented or decreased within limits. Most individuals would define those limits by reference to their personal financial pains in paying taxes.

There are indications that the willingness and ability of citizens to supply funds to private charities are decreasing. Clearly, private charities cannot "afford" to spend more than they are able to get from their donors. There is evidence also that our cities have, in general, reached the limit of the extent to which they can levy taxes upon real estate and collect those taxes. They cannot "afford" expenditures beyond that limit unless they alter their system of taxation. It is well known that many municipalities (although a decreasing number, according to a late report by the Municipal Securities Committee of the Investment Bankers' Association of America) are in financial difficulties owing to the relief load.

Now the question arises whether the Federal Government has likewise reached the limit of readjustment of expenditures and increase in taxes for the purpose of relief. It is easier to answer the question with the voice of a politician than with the insight of an economist. The tax experience of European countries would make an affirmative answer improbable. But however that may be, of this much one may be confident. Those interested in preserving the essential basis of our capitalistic, industrial society will be well advised not to speak too loudly about the inability of that society to provide a minimum of healthy maintenance for every citizen. This is the Marxist contention. To admit that we cannot afford a decent standard of living for every man, woman, and child is to play directly into the hands of those who wish the essential capitalistic basis of our society radically changed.

Equally important with the question of the total cost is the matter of the distribution of that cost. Are we realistically and fairly distributing it over the various possible bearers of the burden? The salient facts are very quickly stated. In the first place, the proportion borne by private donors has decreased tremendously. In the early years of the depression private contributions for relief purposes accounted for 30 to 40 percent of such expenditures. This proportion is now estimated at less than 5 percent. Equally startling is the proportion which is now being borne by the Federal Government in contrast with local or State governments. From the beginning of 1933 to the end of June 1934, we spent strictly on relief $1,340 million. Almost two-thirds of this amount (62.8 percent) was furnished by the Federal Government, 16 percent was furnished by State governments, and 21 percent by local governments.

These proportions, however, are not accurate for all the States. The relief programs of the several States are supported by the Federal Government in varying degrees. During 1933 the distribution ranged from Connecticut, which received about 12 percent of its relief funds from the Federal Government, to South Carolina, which received 99.7 percent. During this time, 19 States were getting over four-fifths of their funds from Federal sources. During the second quarter of 1934, 31 States were in this category.

On the whole, this distribution represents an adjustment to economic and social facts. The Federal grants to the States cannot be made on the basis of a blanket formula. There are too many variables in the situation. For example, States differ as to the size of their groups on relief, and also as to their economic resources and their constitutional limitations upon borrowing. Moreover, relief needs fluctuate from month to month owing to economic or natural conditions which are not anticipated, and probably cannot be anticipated, by legislatures when the funds are granted.

The question of the source of funds for large-scale unemployment relief is an important one. Should that source be primarily the local community, the State, or the National Government? Out of our experience with unemployment there is very rapidly gaining ground a new principle, and the principle is this: unemployment is a national problem. Therefore, it should be dealt with in a national way. No one locality is responsible for the economic weather which stimulates or depresses industry. A discontinuation of certain industrial activities may be necessary in view of the interests of the total national economy.

Furthermore, an increased tax burden upon local industry decreases the chance of profitable operation there. Curtailed operations spell larger relief burdens. The circle is complete. Thus the distribution of the dominant burden of cost over as large a geographical area as possible would seem to be the most feasible way of carrying the load of unemployment. Yet under our political division of responsibility, it is probably unwise to place the whole burden upon the Federal Government. We live in areas whose interests frequently conflict, and in all probability a complete allocation of the load upon the Central Government would result in a race for Federal funds. But the fallacy of placing the burden, even if it were possible for it to be borne, entirely upon the local government, is obvious.

Another question frequently raised is whether such an immense amount of money as is now needed for relief can be administered on a high level of efficiency. The answer is necessarily in the negative. The relief of 17 million citizens—1 out of every 7 of our total population—involves the setting up of one of the most gigantic production and distributing businesses ever attempted within our borders by a single enterprise. It involves organizing a working force of 127,000 aids. Compare this with the employment rolls of any private enterprise in the United States. There are more people engaged in it than are employed in the operations of the General Motors Co., and about the same number as are employed in United States Steel Corp. Moreover, consider that these business enterprises have developed from small beginnings, new processes and departments being added, in most cases, with the ground well surveyed and the personnel in possession of some experience. But the organization of the relief forces of the country had to be accomplished almost overnight. Furthermore, this had to be accomplished with an inadequate force. The American Association of Social Workers had in 1931 a total membership of 5,600. A Federal census study of June 1932, gives the number of social workers in the country as 31,241. The majority of these social workers are in the private agencies, which at the moment are administering about 5 percent of the relief funds. To expect of our public relief administrations efficiency in any sense of the word satisfactory to a businessman or an industrial leader is, therefore, to expect the impossible.

Inefficiency is deplorable, and no one is more alive to the need for increasing the efficiency of our relief staff than the State and Federal administrators. In many cases, too, inefficiency is inexcusable. But it is not the primary issue in considering the extent to which relief should go. The main question is this: What must be done in order to maintain the health, the spirit, and the confidence of our fellow citizens in a way which will enable them to support themselves when opportunity for self-support is once more available?

Our next question is clouded in controversy. What has the relief program done to the character and morale of our unemployed? What is it doing to their willingness to support themselves? Are we creating a class of people who will never willingly work again? Discussion of these points is in the "it stands to reason" stage. No really adequate facts on the effects of relief on employability and morale are available. But certain facts are known. In the first place, most of these people on relief are workers with an experience of work discipline. They have enjoyed and have been trained in the advantages of work. A preliminary analysis of the data, from an FERA survey, on 50 cities gives us the following information: Only 7 percent of those who are working or seeking work while on relief have never had a job. About 95 percent of these are under 25. Three-fifths of the potential workers on relief had had at least 5 years of experience in their normal occupation. One-half of them had worked 5 years for one employer. Thus the relief group is made up predominantly of those who have been industrially useful for substantial periods of time.

On the other hand, these workers have lately been unemployed for long periods of time and have lived in harsh circumstances, not easy for them to understand. The same preliminary information on unemployed work seekers referred to above indicates that 13 percent of the total number had lost their jobs in the 5 months preceding the survey, another 29 percent during 1933, another 21 percent during 1932, and another 16 percent during 1931, leaving about a fifth who had lost their jobs during or before 1930. It is not hard to imagine what effect the constant tramping about in search of jobs which were not there has had upon the 87 percent who have been out of work longer than 6 months.

Added to this is the fact that certain groups, especially Negro groups, are actually better off than they were before. Many who for years had worked only casually if at all, and maintained a standard of living hardly worthy of the name, have suddenly found themselves in possession of a standard above that to which they were accustomed. One is, however, hardly able to believe that a relief scale which is at a maximum in New York State, with $44 per family per month, has uncovered any large number of workers who are in this happy position.

That this small group of workers is better cared for as relief clients than as wage earners is not surprising. There are competent investigators and social workers, dietitians and public health officials on the job to see that the relief program is as adequate as possible. They are bringing to their task a knowledge of individual needs and social needs which has grown out of a long experience. We are learning slowly that a certain income is necessary to keep body and soul together, that wants fluctuate, that members of certain occupations require a higher standard of living in order to function as intelligent citizens than those in other occupations. So we are beginning for the first time to bring out into the open what has been private knowledge among wage earners and workers the world over for many years. This knowledge is becoming a part of our "wisdom of experience," and we cannot escape it in the future.

If private industry is unable to attract men from relief rolls, who is at fault? Is it the relief system which offers a minimum standard of living which we are finding necessary in order to maintain the physical and the mental efficiency of our working population? Or is it a system of industry which can offer men no more than this? There is an implied criticism in these questions which are now being asked.

Such criticsm either of private industry or of the relief enterprises, it seems to me, will remain completely beside the point until industry is able to provide work for these men and until it encounters a labor shortage because men refuse to come back to work. The real danger of a permanent relief roll is not that men will have no desire for work, but that such a desire will make no difference. The way to gage this sort of malingering would be to establish as quickly as possible an adequate system of labor exchanges. Then at least we could check up on the individual unwillingness to the extent that unwillingness would make any difference.

The final issue to be considered in this article is whether at all points the relief program is consistent with business recovery within our present economic organization. The most solid body of criticism directed toward this issue arises from those who fear the effects of Government production-for-use enterprises.

Some relief efforts appear to justify this fear. The purchase of 250,000 bales of cotton to be distributed among several States without charge for the making of mattresses and comforters giving employment to about 60,000 women is one such effort. The processing of over a million and a half cattle bought to relieve the drought problem is another. The processing and distribution, through the Federal surplus relief, of cotton, hides, foodstuff, and the like taken off the market by the AAA, the setting up of industries, including furniture, to meet the cash needs of the maintenance homesteaders, the subsidizing of self-help organizations to the extent of about a million dollars between August 1933 and June 1934, the definite organization of production units as work relief, are all items that arouse such fears.

The fears might be justified were it not true that the part played at the moment by such efforts is a negligible part of the relief picture. The total retail trade in the country in 1933 amounted to about $26 billion. Federal relief funds provide less than 3 percent of this business. About one-fourth of this 3 percent was expended in work relief. About one-tenth of the work relief expenditures went to the production-for-use enterprise. That brings the amount of competition from such sources down to an insignificant figure—too insignfiicant to justify fear—except as fear of what might perhaps develop from this small beginning.

There is a growing group of observers who favor the expansion of such relief measures. The unquestioned stimulus to morale which a chance to produce gives a man broken by a long period of idleness, the possibility of adapting the enterprise to the occupational skill of large numbers, the obvious superiority of such activity over mere "busy" work, the opportunity to use individuals who, for lack of projects or lack of qualifications, cannot be used on public or civil works—these are advantages worth considering. There are many who contend that the processing and distribution of surplus raw materials are, in our condition of unsatisfied wants on the part of a quarter of our population dependent on jobless breadwinners, more sane and civilized than the destruction or the reduction of such materials.

I cannot feel that the cry that such production-for-use units would interfere with private business is justified. The workers who are being supported by such methods represent the failure of private business to support our entire population. Having failed to support them all, has private business the right to compete for public funds expended in their support? If public funds can be spent better and more efficiently by organizing the unemployed to produce for their own use the things which they need for a living, then that is a legitimate expenditure. It is time that we realized that those public funds devoted to the relief of men and women left stranded by private enterprise are not a legitimate field for the competition of private enterprise. In any case, business built upon the supplying of relief goods is not on a sound foundation, for some day, we trust, this business will disappear. A revival of general business strong enough to reabsorb the unemployed depends upon positive large-scale measures. To use relief business as a stimulus or as a stabilizer is not only futile but an anachronism of the worst kind.

Another way of putting this issue is to question whether the relief enterprises are correlated with other forces which arise to stimulate private business. It is beyond the scope of this article to discuss the economics of public works or any other measures to increase purchasing power, raise prices, or promote private business. But it is relevant to point out the connection of huge Government expenditures and the maintenance of so large a proportion of our population on public funds with such attempts. For better or for worse we live in an economic system in which opportunities for self-support depend, among other factors, upon the ability on the part of employers and investors to see and the willingness to exploit a profitable market. The outlines of a substantial and profitable market for products must be clear before we can have any expansion in employment, and certainly any expansion in plant and demands for other capital goods. No employer is going to seek credit for expansion and no investor is going to be anxious to provide it unless these outlines are evident. That is why a substantial promise of the revival of foreign trade is important. That is why an economically sound development of the farmers' purchasing power is important. That is why the existence of 17 million on relief and of at least 10 million more on vanishing resources stands as a black cloud on any horizon open to the view of employers. True, the Government is supporting the purchasing power of that 17 million at a level far below its former amount, but how long can this support last? What is going to be the permanent job basis for purchasing power of this group? The impossibility of expecting relief purchasing power to present a sizable basis for expansion is obvious.

Granting that we propose to continue to depend upon competition for profit as the power source for our economic organization, our only hope is that this army of unemployed will be absorbed into private industry. Only there can it secure the means for the satisfaction of increasing wants. No amount of price raising and pump priming will accelerate enterprise or the manufacture of goods which employers know cannot be bought. No amount of artificial supply of purchasing power will stimulate manufacturers to expand their equipment. Such expansion must be postulated on the confidence that purchasing power is solidly based on continuing occupation.

There is no sure way to achieve this result. We do not know enough about social and economic forces. From our present knowledge it would seem that a determined expansion of housing activity comes as close to meeting the need as any methed. There are dangers. The artificial character of the situation may cause uncertainty as to whether the upswing is real or whether it is completely dependent upon continued Government activity. We all know that such enormous expenditures may arouse fears of the eventual necessity of inflation; they may act as a peg for prices and wages out of harmony with economic realities. Such a program may be too inflexible to provide for gradual transfer of men from public to private enterprise. These dangers will have to be faced. The housing plan, however, is one of the few remaining plays that the quarterback of the relief team can call to advance the ball of private industry.

Seen in the large, the problem of relief transcends the care for our present relief load. It involves the question whether today's relief cases are to become semipermanent and whether their numbers are to be augmented by new recruits who cannot find opportunity for self-support. In brief, it involves the issue of reabsorption of our unemployed into the ranks of private industry.

In the long run, the problem must come back to plague the days and nights of the management and ownership of private industry. The person who works the pump handle always has to work harder than the person who primes the pump with the bucket of water. Now, there may be advantages to investors in industry in supporting individuals within another type of economy, a relief economy, rather than giving them jobs. It may be that industry can earn greater profits and can pay larger dividends by using the more efficient workers whom at the moment it is using than by absorbing those who at the moment are unemployed. But if our industrial organizations cannot provide a living for these men by giving them jobs, then it must support them on charity, and ultimately, that cost will come back on industry in taxes. The question, then, is whether industry shall support a part of the population in this indirect way or whether it shall support them by means of jobs. It is likely that industry will not voluntarily undertake the reabsorption, for such a process means higher costs and less efficient production. The Government may be able to stimulate reabsorption by an extensive construction program. It may be that we shall have to develop a new and useful set of public services for the unemployed. We may have to organize the offcasts of industry into production-for-use units. Private industry will probably allow the Government to undertake some such experiments as this before it comes to grips itself with the problem of making provision for the total number of people who are actually members of the industrial army.

Somewhere in my boyhood memories is a story of the Civil War told me by my grandfather. A regiment was being driven step by step into a swamp. When help finally arrived from a new regiment, it had the double job of rescuing its comrades from the swamp and forcing off the enemy. The story illustrates our present complex relief problem. We are not concerned alone with maintaining a static group. We must try to relieve destitution, and at the same time we must try to prevent it.

On the whole, we are making a bold and successful effort in that first task. It is to the credit of the present relief administration that is doing such excellent work while the battle for putting the forces of insecurity to flight is still being fought. There are also evidences here and there that we are creeping up closer to the real source of our difficulties—the progressive economic and social deterioration of jobless men. We are helping them to hold their ground. The stimulation of private enterprise is our largest hope. The establishment of old-age pensions, which retire workers early enough to reduce their competition for jobs; health insurance, which can all but eliminate

sickness as a cause of destitution; unemployment insurance, which would go beyond the totally inadequate benefits of 10 to 15 weeks now proposed and would cover the period during which a cash subsidy is a sound adjustment to the needs of the unemployed—there are the steps we must now prepare to take. Assuming that we are able to continue the present efficiency of our relief program, the next step is to throw security around the lives of the employed and the unemployed who have not yet been forced to depend upon public funds.

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UNEMPLOYMENT RELIEF

(By Corrington Gill, Federal Emergency Relief Administration)

Two and a half years ago the Federal Government reluctantly acknowledged its responsibility to bear a part of the financial burden of caring for the needy unemployed. Insistent pressure for supplementation of State and local resources made itself effectively felt upon the Federal Government for the first time in July 1932, when the Emergency Relief and Construction Act appropriated $300 million for unemployment relief. Though a certain measure of financial assistance to States and municipalities was thereby provided, it was soon found that the degree of participation adopted in the summer of 1932 was wholly inadequate to deal effectively with the problem.

When the winter of 1932–33 became well advanced, a new relief crisis developed rapidly. Expenditure of the $300 million had to proceed much more rapidly than had been contemplated in the preceding summer. Its administration was in the hands of the Reconstruction Finance Corporation which, in view of its other major preoccupations, was forced to leave the relief job to a subsidiary division. The ~~terms of~~ the act did little to promote the adoption of better measures or ~~the~~ stimulation of leadership in dealing with the problem. Finally, the $300 million were made available as loans with the result that State and local officials were faced not only with the problem of raising their share of relief costs, but also with the expectation that the funds which they were getting from the Federal Government were to be repaid from future Federal highway grants. The result of this financial pressure combined with the inability to adopt positive administrative policies resulted in inadequate relief benefits and in unsatisfactory relief standards and policies. Alarming consequences in the health and morale of the unemployed were beginning to make themselves evident. The result of the critical situation which was developing was the passage in May 1933 of the Federal Emergency Relief Act at a time when the earlier $300 million appropriation was at the point of exhaustion.

The Federal Emergency Relief Administration created by this act found relief organizations of some sort in all but six States. The differences between these State relief organizations were, however, much greater than the similarities. They varied in statutory authority, in basic policies, in the availability of funds, in the extent to which they covered the State, in the extent to which they had control over the intake of cases and over the expenditure of funds, and in every other point of operating efficiency and social policy. The basic cause was twofold. First of all, financial resources and administrative capacity in the State governments has always varied sharply.

The more immediate cause was the fact that unemployment relief on a large scale was almost as much of an innovation in State governments as in the Federal Government.

The State relief organizations except in a few of the largest States had been in existence for less than 7 or 8 months. Most of them had been created in the fall of 1932 following the passage of the Emergency Relief and Construction Act. Only 6 States had statewide relief administrations before July 1932; 5 were created in July and August 1932; 18 in September; and 8 in October. During the succeeding months relief administrations were gradually established in the other States although there were six in which the establishment of an organization to cooperate with the Federal Government did not take place until the Federal Emergency Relief Administration came into existence. In many States the groundwork was laid by the able leadership of the American Public Welfare Association. The task of coping with the country's largest social problem was, however, in the hands of administrative organizations, most of which had hardly more than 5 or 6 months of active experience to guide them. During these 5 or 6 months most of these State emergency relief administrations had had to begin from the very beginning by organizing local and county relief administrations in every locality in which a serious relief problem was found to exist. It is true that organizations of one sort or another had been created early in the depresssion in most of the larger cities. Also, in New England, New York, and a few other States, reasonably effective local welfare departments or poor boards existed as a nucleus of organization, but in the country as a whole most of the organizations had to be built from the ground up. Inevitably, tremendous differences existed between the areas in which a background of public relief and a nucleus of trained personnel already existed and the areas in which it was necessary to improvise an organization hastily.

To understand what was accomplished during the 20 months in which the Federal Emergency Relief Administration has been in existence and to understand the nationwide relief organization as it now functions it is necessary to go back to the terms of the Federal Emergency Relief Act. The act did not set up Federal relief machinery to administer relief in specific cities or communities. That duty was left to the States. It is necessary to keep clearly in mind the central fact that the investigation and distribution of relief to individuals is carried on by approximately 5,000 local public relief organizations and not by officials of the Federal Emergency Relief Administration. Misunderstandings on this point are common. The Federal Emergency Relief Administration was created to cooperate with the States in furnishing relief; not to administer relief in the States. Only under extraordinary circumstances was power given to assume control of the organization in States where the cooperative relationship might break down, and this power thus far has been exercised in only three cases. In the other States, relief administrations existed by virtue of State laws or executive action by State Governors. Accountability for the expenditure of funds rests directly with the State Government or the Governor of the State and not with the Federal Government.

The Federal Emergency Relief Administration has found it desirable and possible to exercise considerable influence toward closer control and toward more adequate and socially sound relief policies. This has been done by persuasion or by implied conditions attached to grants, and not by direct control. This is probably the only way in which the relief problem could have been attacked. The problem itself was largely unknown in its details 20 months ago. Had an attempt then been made to define a complete and specific set of regulations covering every aspect of relief administration, we would not only have cause immediate and complete disorganization of the giving of relief on any basis whatsoever in many places, but we would undoubtedly have made mistakes which it would have taken longer to cure than it has taken us to correct the shortcomings of the then existing relief administrations. Even more impossible would have been the creation at that time of a completely centralized Federal relief administration controlling directly the giving of relief in every hamlet, deciding who should be admitted to the relief rolls, how much relief he should get, and how it should be given to him.

The very first regulation issued by the Federal Emergency Relief Administrator specified that funds granted by him should be administered only by public agencies. On the whole, this policy has been carried out successfully. Previously public funds were administered in many places through a heterogeneous group of private charitable societies whose responsibility was illy defined and from whom no uniform accounting could be obtained. Obviously State relief administrations could not be held responsible for the funds granted to them unless they in turn could exercise full and complete control over the local agencies which actually expended the funds.

After making certain that sufficient funds were immediately available in the States, the next major task was that of reviewing the State relief administrations. Inevitably, it was necessary to begin with the worst organizations. In some cases reorganizations involving almost a complete scrapping of what was found to exist were necessary. In others, major changes in personnel had to be carried out. It was particularly necessary to proceed immediately to strengthen casework and accounting divisions.

In many places, untrained volunteers or equally untrained persons from relief rolls were passing upon the eligibility for relief and the amount of relief to be given, with resulting discrimination and waste. Responsibility for the decision whether or not applicants were eligible for relief was often in a haphazard condition. Oftentimes, wide variations existed concerning definitions of need on budgetary standards. The Federal Emergency Relief Administration, therefore, pressed toward the development of more competent casework in every State in order that the process of acceptance or rejection might be made on a more uniform and intelligent basis.

Similarly, great variations existed in accounting practices. Financial controls in many States were weak and in others almost nonexistent. The classic case was a local Middle West relief office where the case records and financial accounts were kept on the white painted wall. In some States bills were left unpaid for months. In others lump sums of money were turned over to county relief committees to be accounted for should leisure time ever develop. In certain States effective financial controls had been set up, but in too many States little control existed. Pressure for higher standards of financial competency had been successful until every State administration has developed a budgetary and accounting control of a high degree of effectiveness.

Another immediate task was that of setting up a detailed system of weekly and monthly reports for the guidance of the Federal Emergency Relief Administration as well as for the guidance of the individual States, many of which at the time had only rudimentary systems of reporting. Uncertainty existed concerning even the size of the relief problem. Even the number of families receiving relief was unknown. No information was accessible in Washington concerning the current volume of State and local relief expenditures. Little was known concerning the age, sex, occupational characteristics, and other relevant social facts concerning the composition of the relief population. Statistical reforms have been quite successful through intensive work over a period of months. State and local officials have been educated to the need for quick and accurate reports of both caseload and financial details, but the magnitude of the job has prohibited the obtaining of all of the social data desired. It has been possible, however, to institute a satisfactory monthly reporting system and to pursue a comprehensive research program from which data are obtained for administrative purposes and also for general light on many aspects of the relief problem.

To eliminate discrimination because of race or other grounds in the granting of relief, one of the basic regulations of the Federal Administration provided that relief should be given to all needy persons and their dependents. This was defined to include all those whose resources were inadequate to provide the necessities of life for themselves or their dependents. It has been the Administration's policy that no discrimination should be made because of race, color, religion, or political affiliation or participation in industrial disputes.

In its effort to improve the adequacy of relief the Federal Emergency Relief Administration has used its influence and resources along a number of lines. It has encouraged the substitution of cash relief for cumbersome and humiliating grocery orders and commissary systems. This transition is proceeding rapidly in three leading industrial States—New York, Pennsylvania, and New Jersey—and in many other parts of the country.

Encouragement has been given toward more effective provision of clothing and of medical care, realizing that providing only a minimum quantity of food could not be maintained as a long-run policy. Federal funds may be used also to meet rent payments, where necessary, in order to provide shelter for those on the relief rolls and while progress in this direction has been slow it has nevertheless been substantial. Generally the Administration has succeeded in raising the level of relief in those areas in which it was lowest a year ago last spring.

In connection with the continual efforts to improve the standards and adequacy of relief and to aid certain groups and classes of the population whose needs were not met through the ordinary relief channels, a number of special programs have been undertaken in an effort to meet a series of specific situations.

One of these groups is the transient population. The transients constituted peculiarly a Federal problem because the States and cities were reluctant to spend money for the care of nonresidents and an attitude of indifference or hostility was often shown for the transient group. The Federal Emergency Relief Administration, therefore, earmarked special grants to States for the care of transients and has exercised a large degree of direct supervision and control over the transient program. The general policy has been to stop insofar as possible the hopeless trek from city to city in search of a job and to make permanent provisions for the care of these people in their home city. At the present time there are about 280 transient centers and 270 transient camps throughout the country. More than 280,000 persons receive aid in these transient centers and camps throughout the country.

During the autumn of 1933 an emergency program of education was inaugurated. This program has been developing until at the present time there are about 30,000 teachers, most of whom would otherwise have been on direct relief, instructing classes in the following fields: general adult education, vocational training, vocational rehabilitation, literacy, workers' education, parents' education, and nursery schools. As a means of aiding a group peculiarly affected by the lack of employment opportunities during the depression, the measures first undertaken by the Federal Emergency Relief Administration during the spring of 1934 to help young persons to attain a college education were repeated and expanded for the current college term. In addition to enabling a group to obtain a college education who would otherwise be financially unable to do so, the labor market is relieved of the competitive pressure of these young persons searching for work. Approximately 100,000 students are now being aided, representing a considerable expansion over the 65,000 students aided last spring. The program involves the expenditure of approximately $1,400,000 a month.

During the second term of the 1933–34 school year many schools, especially in rural areas, were threatened with closing because of the inability of local units of government to finance teachers' salaries. To provide for the continuation of these rural schools until the end of the school term, approximately $17 million were granted to 33 States.

The familiar paradox a year ago of large agricultural surpluses on the one hand and inadequate relief and dire need for food on the other, led to the organization of the Federal Surplus Relief Corporation in the early part of October 1933. Agricultural surpluses acquired by the Agricultural Adjustment Administration as the result of its crop reduction activities were turned over to the Corporation to be put into form suitable for distribution, and the products were then given to State relief administrations for distribution to needy families. These commodities are distributed over and above the relief benefit which would otherwise be granted. This increases the adequacy of relief and assures the use of surpluses which would otherwise be wasted. The Corporation also has purchased various surpluses directly as agents for the States for distribution in a similar fashion. Another procedure which has developed is the purchase locally of surplus commodities with funds made available by special grants. The first activity of the Corporation consisted of the processing and distribution of 100 million pounds of pork made available as the result of the purchase of pigs and sows by the Agricultural Adjustment Administration in the late summer of 1933. In all, 42 different commodities have been distributed, including over 1 billion pounds of foodstuffs.

The drought brought new problems. Extending over most of the area west of the Mississippi by the summer of 1934, in varying degrees of intensity, hundreds of thousands of farmers lost their means of livelihood. There was no feed for the cattle and no seed to plant late forage crops or for next year's wheat crop. The Agricultural Adjustment Administration purchased some 7,500,000 head of cattle and those fit for processing were turned over to the Federal Surplus Relief Corporation either for processing and distribution to families on the relief rolls throughout the country or to be shipped to other areas for grazing pending later slaughter or distribution to farmers in connection with the rural rehabilitation program. Feed supplies were made available to farmers to enable them to retain foundation herds. The Farm Credit Administration made loans for this purpose to farmers having sufficient credit. Both feed and seed were furnished other farmers through the State and local relief administrations. The drought is responsible for approximately 300,000 families on the present relief rolls. In South Dakota, one-third of the population of the State is now receiving emergency relief through local relief agencies. In most other drought States, from one-fourth to one-fifth of the population is on relief. The method of granting relief in these areas is typically in the form of work on projects of a water conservation nature. These include the construction of small dams, digging and drilling wells, and the construction of pipelines.

It is believed that a considerable acreage of land in the drought area brought into cultivation during the war period is not suited for cultivation and over a period of time will not support the population. It is the intention of this administration to purchase large amounts of this submarginal land in this and other sections of the country and either retire it from production or adapt it to purposes for which it is better suited. Up to the present time over 2,500,000 acres have been optioned.

The problems of relief are obviously entirely different in rural agricultural areas than in the large centers of industrial unemployment. Here the families face a permanent loss of income and relief policies involve the rehabilitation of the family on at least a self-sustaining basis on the land rather than the granting of direct relief or the furnishing of employment on a work program. A beginning has been made in a program of rural rehabilitation. Corporations have been formed in each State as the directing administrative agency. Although general policies of the program are established by the Federal Emergency Relief Administration, considerable latitude is allowed the State corporations to meet the multiplicity of local problems. More than 60,000 families have been transferred from the general relief program to the rural rehabilitation program.

This program is directed toward the hundreds of thousands of families in rural areas who are now dependent on relief and most of whom, unaided, will never be able to get along on their own resources. These families are facing permanent destitution due to poor land, loss of capital equipment, the breakdown of landlord-tenant relationships, or for various other reasons. The method of rehabilitation to promote economic self-sufficiency at a reasonable standard of living must be diversified to meet the varying problems in different sections of the country. In general, the program involves making available skilled supervision, feed and seed, farm stock, and equipment, housing, and land—the extent to which the above facilities are made available varying in accordance with the problem of the individual family. In the most extreme case, that of the family living on land where the soil is so poor as to preclude the possibility of it ever yielding a living, it will be necessary to furnish most or all of the facilities listed above.

This program also includes the establishment of rural industrial communities of from 100 to 500 families. Each family would be provided with a house with sufficient land immediately adjacent to provide the annual food requirements for the family. It is intended that cash income be provided by means of part-time work in local industries.

The most important and significant of all the policies and accomplishments of the Federal Relief Administration has been the development of a work program as a method of meeting the unemployment problem. Up to the time the civil works program started in the middle of November 1933, a rather ineffective program of work relief was in operation under the auspices of the various States and localities. All of the persons on work relief, and the projects were transferred to the Civil Works Administration at the start of the CWA program, and with the wholehearted cooperation of State and local officials a large work program with effective supervision was put into effect almost immediately. By the middle of December over 2,500,000 persons were working and by the middle of January, at the peak of the program, 4,100,000 persons were at work with a weekly payroll of $62 million. Reduction in personnel began about the middle of February and proceeded each week until the program was ended on March 31, 1934. The total cost of the CWA was approximately $1 billion, of which the Federal Government furnished $825 million and States and localities $175 million. About $750 million was expended directly for wages and $250 million went into other expenditures, including materials. The immediate purpose of the civil works program was to meet the crisis during the winter of 1933 and there is no question but that it accomplished this purpose. From a long-term standpoint, however, the chief value of the civil works program may very well prove to be that of effectively demonstrating the possibilities of public work as a means of meeting the needs of millions of destitute unemployed.

Under the handicaps of very little advance planning of projects, the speed with which the program was put in operation, and the especially adverse weather conditions during last winter in the Northern States, the quality of the projects under CWA was surprisingly good. The projects were required to be socially and economically desirable but were to be outside the ordinary functions of State and local governments and work which would not otherwise have been undertaken. Projects covered almost every conceivable sort of work ranging from construction and repair of State roads and highways and the construction and repair of water systems to such research studies as housing surveys, tax delinquency studies, and a census of American business.

During the early part of the civil works program a maximum 30-hour week and a maximum 8-hour day was established for all employees working at manual labor. Clerical and professional workers were on a 39-hour week. The wage scale was that established by the Public Works Administration for skilled and unskilled labor. For clerical, professional, office, and statistical workers the prevailing rate of the community was paid but minimum rates were established ranging from $12 per week for unskilled and clerical workers in the South to $24 to $45 a week for professional workers in the North.

As the program proceeded certain changes were made in these policies, Effective January 18, the work hours were reduced from a maximum of 30 hours per week to a maximum of 24 hours in urban areas and to 15 hours per week in rural areas. In the middle of February the public works wage scale for skilled and unskilled labor was abandoned and the policy of local prevailing rates for the type of work undertaken was established, with the minimum rate of 30 cents an hour.

Coincident with the demobilization of the civil works program at the end of March 1934 an emergency work program was inaugurated under the Federal Emergency Relief Administration. This emergency work program has proved to be considerably more effective than the old work relief system before civil works. The projects and the administrative experience gained under civil works was carried over to the new program. Planning activities inaugurated under civil works were expanded, systematized, and made an integral part of the new program. A staff of engineers having supervision over the selection and the progress of work projects became a part of State and local relief organizations. Much more effective control by the Federal Emergency Relief Administration was established by the appointment of regional engineers in general charge of groups of States and experiences in one State were thus made available to others.

The quality of projects has been continually improved. The problem of providing jobs conforming as closely as possible to the capabilities and past job experience of individuals was given special consideration. A new division was established to provide projects for women, professional and clerical workers received special consideration, and, in general, efforts were concentrated toward getting into widely diversified types of projects. The number of person working under this work program has increased from 1,200,000 in April to approximately 2,200,000 at the present time.

The wage policy under the emergency work program provides for the payment of local prevailing hourly wage rates for the type of work performed. The hours of work are adjusted for each worker so that total monthly earnings are the equivalent of budgetary deficiency of the family as established by caseworkers. The local machinery for determining the prevailing rate of wages for the different occupations is typically a committee consisting of one representative from organized labor, one from the local relief administration, and a third member from local business or professional groups selected by the first two.

For the immediate future, there are three major directions which a program for the assistance of the unemployed might logically take. For the 1 million cases now classified as unemployable, including the aged, the mothers with dependent children, and those in need because of mental or physical disability, a program of direct assistance in the home through permanently established public welfare agencies seems to offer the most satisfactory solution. For families in rural areas, direct relief should probably be abandoned and in its place the present rural rehabilitation program should be continued and expanded. The unemployed in the urban industrial centers, however, represent the most important of these problems. After 18 months of experience with all phases of relief those of us in the Federal Emergency Relief Administration are definitely of the opinion that aid for the urban unemployed should be divorced insofar as possible from a relief basis and should take the form of real jobs on useful and worthwhile projects.

From a long-term standpoint, we can look forward, I hope, to unemployment insurance, old-age pensions, mothers' pensions, and possibly old age and health insurance, as providing systematic assistance against insecurity. We must not be misled, however, into the fallacy of believing that the needs of the unemployed will be entirely met by the enactment of this social legislation. There will remain for many years to come large groups of people in destitute circumstances falling outside the range of this legislation for whom work assurance should be provided.

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THE NIRA AND STABILIZATION

(By Otto Nathan, Princeton University)

Among other objectives, the National Industrial Recovery Act purported to provide measures for greater stability in business. The law itself gives hardly any indication of how stabilization is to be promoted. The act, as a means toward stabilization, can serve only as one link in a whole chain of varied economic measures. Entire stabilization of our economic system is impossible to achieve; however, economic policy should attempt to attenuate and smooth cyclical fluctuations. The National Industrial Recovery Act may provide machinery to assist in such a policy. Such measures, chiefly for regulating new investments during a boom and influencing the process of readjustment during a depression, seem possible under the act only if its present provisions are interpreted in such a way as to permit regulation of production and productive capacity as well as fixing of prices. The results to be hoped for will, at best, be very moderate in the near future. Constructive economic policy will not be possible without a board continuously studying and analyzing economic developments and advising the government.

I

The National Industrial Recovery Act was directed, in addition to immediate relief and social welfare, toward two main objectives: First, it was considered to be a vigorous attack against the present economic depression. Its second objective was much broader. For the first time in the history of the United States, the desire for greater stability in business was supposed to find expression in a law which is now, at least until June 16, 1935, on the statute books of this country. This law was intended to provide measures necessary to make production and employment, once they had returned to "normal," more continuous than they have been in the past. At the hearings before the Committee on Finance of the U.S. Senate,[1] Senator Robert F. Wagner, who was partially responsible for the original draft of the bill, declared "the widespread and *permanent*[2] reemployment of workers at wages sufficient to secure comfort and decent living" to be the single objective of the bill which "marks a far-reaching departure from the philosophy that the Government should remain a silent spectator while the people of the United States, without plan and without organization, vainly attempt to achieve their social and economic ideals." And the President of the United States expounded the purpose of the act even more clearly. In affixing his signature to the act, he declared that "it represents a supreme effort to stabilize for all time the many factors which make for the prosperity of the Nation and the preservation of American standards." [3]

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[1] Hearings before the Committee on Finance, U.S. Senate, 73d Cong., 1st sess. on S. 1712 and H.R. 5755, p. 1. See also the similar statement by Senator Wagner before the Committee on Ways and Means (hearings before the Committee on Ways and Means, House of Representatives, 73d Cong., 1st sess., on H.R. 5664, particularly p. 95) in which he emphasized the importance of sec. 2(b) in regard to "an orderly organized economic system."

[2] Italics by the author.

The actual provisions of the law are directed much more definitely to its immediate objective, that is, to fight the present emergency, than to the more distant goal of business stabilization. However, the scope of the law and the latitude it gives to the Government are such that future action intended to insure stable business conditions may be possible, once recovery is achieved. The law itself gives hardly any indication of how stabilization is to be promoted. It is, therefore, of great importance to determine whether the law lends itself at all to such purposes, and, if so, which of its provisions would be involved, and how they should be interpreted and carried through.

II

The economic system of all modern industrialized countries, except Soviet Russia, is of such a nature, and our knowledge about the multitude of factors involved is admittedly so small, that we are not justified in entertaining any hope of our ability to master the business cycle and to eliminate the fluctuations that it causes, in the near future. Our present knowledge forces us to assume that an economic system based on private property, private profit, and private initiative, and characterized by an extremely far-reaching division of labor, by production for an anonymous market, by continuous evolution and progress, and by the use of money and credit, will have to endure fluctuations of smaller or greater magnitude, as long as these features are not fundamentally changed.

Moreover, economic policy should strive toward smoothing and attenuating these cyclical fluctuations.[4] Within these limits, it can be assumed that measures can be devised which, in due time, may bear modest fruits. If it appears politically feasible to have them adopted and carried through, they may perhaps help to make future cyclical fluctuations somewhat less severe and less violent than they have been in the past.

The ideal objectives of such an economic policy may be summarized as follows: (1) Since during the boom period disproportionalities are created which ultimately lead to a break in the upward movement, an attempt should be made to reduce such disproportionalities as much as possible. (2) Once the break has occurred and the system has entered the period of crisis and depression, the task is twofold: (*a*) to help the process of liquidation and writing down of capital liabilities in order to reach a new basis for recovery; (*b*) to prevent depression from becoming a self-inflammatory process and thus reaching proportions which may not be justified by previous disproportionalities. It is of utmost importance that all measures taken during the depression create now new maladjustments in addition to those from which the system is already suffering. One of the most serious objections against many measures adopted during depressions, or likely to be adopted, is just this—that the theoretical equilibrium is further interfered with and the road to recovery is made much more difficult.

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[3] "The ABC of the NRA," by Charles L. Dearing and others, Brookings Institution, Washington, D.C., 1934, p. 1.

[4] Such an economic policy must, of course, be based on a theoretical explanation of the business cycle.

If any results can be hoped for at all, economic policy headed toward such ends will have to make itself felt in almost all branches and all fields of economic life. The more light that economic theory may shed on the difficult problem of business cycles, the more nearly possible it may become to attack the casual factors themselves which are leading to these disproportionalities. Certain measures of such a nature may even now be attempted. In addition, economic policy must, by more direct measures, aim at avoiding or removing these disproportionalities. They manifest themselves everywhere in the economic system—investments, production, prices, interest rates, wages. But, as facts seem to show, their main center probably lies in the capital goods and durable consumers' goods industries. The investments made in these industries, massed in a relatively short period of time, are presumably the most significant single factor of cyclical fluctuations and one important cause of further disturbance. These investments, therefore, must become the center of attack. Any economic policy for greater stability must primarily be directed toward an attempt to keep these investments in line with savings, and keep them from becoming too large or faulty in view of the needs of a more stable development.

The implications of such a policy, the narrow limits of its feasibility, and its manifold ramifications are not to be discussed here. It would have to be extended to and to permeate the policy on money, credit, and capital, the fiscal policy of all public authorities, commercial policy particularly with foreign countries, labor policy, policy of public works and economic reserves, control of monopolies and all monopolistic or semimonopolistic institutions. It hardly needs to be stressed that the National Industrial Recovery Act can only be one link in a whole chain of economic measures. The problem thus arises whether and to what extent this act fits into such a program of longrun policy.

III

Since title III of the law is concerned with amendments to Emergency Relief and Construction Act and miscellaneous provisions, and title II with public works and construction projects—provisions which deal entirely with the actual emergency at the time the act became law—only title I of the act under heading of Industrial Recovery will be analyzed here. The operation of the act is limited through section 2 to 2 years, should the President or Congress by joint resolution not end it sooner. Moreover, the act may be changed considerably before prolongation beyond that period. The following discussion is based on the act in its present form, and does not take into account any future alterations. Regardless of whether the act will stand in its present form, this discussion will afford an opportunity to outline by a concrete example some of the steps which would actually be necessary for an economic policy aimed at greater stability. The following discussion does not, however, imply that such a policy could be easily carried through.

The National Industrial Recovery Act allows economic policy to develop in five possible ways—

(1) Trade and industrial associations can enter into codes of fair competition which, through approval by the President of the United States, become law for the whole trade or industry involved. Under certain circumstances, the President may, upon his own motion, prescribe and approve a code of fair competition. All these codes are exempt from the provisions of the antitrust laws of the United States.[5]

(2) Agreements between and among persons engaged in a trade or industry, labor organizations, and trade or industrial organizations, associations, or groups, relating to any group or industry, can be approved by the President of the United States and can be entered into by him. These agreements, which are also exempt from the provisions of the antitrust laws of the United States, bind only business enterprises which have entered into them. In this respect, they are distinctly different from the codes.

(3) Employers and employees in any trade or industry or subdivision thereof can enter into agreements as to maximum hours of labor, minimum rates of pay, and other conditions of employment. These agreements, when approved by the President of the United States, become law for the whole trade or industry involved.

(4) In cases in which no mutual agreements such as referred to under (3) have been approved by the President, he can prescribe a limited code fixing minimum wages, maximum hours of labor, and other conditions of employment, such a code being mandatory for the whole trade or industry in question.

(5) The President is empowered to cancel or modify any codes or rules which have been issued before under the National Industrial Recovery Act.

A. LABOR PROVISIONS

With regard to the powers conferred upon the President mentioned under (3) and (4), clear distinctions must be made between the policy as to wages, the policy as to hours of labor, and the policy as to other conditions of employment. No doubt, the wage provisions were constructed much more from the point of view of social reform and as an attack against the present emergency than from the point of view of business stabilization. They may, however, play some part in a comprehensive and conscious policy toward stabilization, although it will prove very difficult to make such use of them, in view of many political, social, and practical reasons. There is even a certain danger that they might tend to increase the rigidity of the system.

(a) *During the boom period.*—It is scarcely doubtful that, in the last analysis, high profits or prospects for such are responsible, during the boom period, for a large increase in productive equipment which later proves partly excessive or misplaced. These profits are possible partially because of the lag between prices and wages resulting to a great extent from the peculiarities of the labor market. Profits could be curtailed if, in the early stages of the boom, wages were raised more than they have been in the past. Such a wage policy would have to distinguish clearly between capital goods and durable consumers' goods industries on the one hand and consumption goods industries on the other, since profits and investments in the capital goods and durable consumers' goods industries increase much earlier and to a greater degree than in the consumers' goods industries. But this provision in the National Industrial Recovery Act could serve such a purpose only if it were understood to mean that the "minimum wage" which the President makes mandatory, constitutes the basis for the whole wage structure. Only then, by affecting the wages of all workers, may some influence be exerted toward greater stability. Such wage provisions can, of course, yield results in the desired direction only if precautions are taken at the same time that prices are not raised accordingly. This danger is the more acute, the more the industry concerned is monopolistic or semimonopolistic. Since the point is to avoid excessive profits, the problem involved is much more complicated than merely one of wages. This consideration shows how meaningless and fruitless measures based on crude purchasing power theories may be at times when increases in prices (or profits) are relatively easily affected.

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[5] The powers of the Federal Trade Commission under the Federal Trade Act, as amended, shall not be impaired.

(*b*) *During the period of depression.*—The wage provisions are of some significance also during the depression. Economic policy during a depression is more likely to be successful in preventing the depression from going too far than in contributing toward the process of readjustment through which a more suitable proportionality in the economic system will be achieved. A conscious and deliberate policy with regard to wages which may become feasible under the National Industrial Recovery Act would be a controlling factor of some significance, particularly in an attempt toward halting the depression from spreading too far. The depth the depression will reach and the length of time it will last may depend to a certain extent on whether and how this important wage problem is handled. While it would be desirable to uphold wage rates, at least to keep them from falling as fast as prices decline, it will, in many cases, be impossible to do so. The less payrolls are reduced, the more it will be possible to uphold consumption, to prevent the slump from spreading too much to the consumption goods industries, and to keep up a maximum of the "normal" amount of goods exchanged. On the other hand, to pave the way to a new adjustment, reduction of wage rates[6] will have to be resorted to. In such a situation, the powers given by the National Industrial Recovery Act may help to build up an important mechanism.

In all countries, the development toward an "organized" capitalism has made the economic system much more rigid and less flexible than it used to be and should be. In regard to wages, this is true even in countries which have as yet no genuine trade-union movement. The wage policy directed or influenced by the Government should, above all, secure more flexibility and avoid uniformity, both during the boom and during the depression. Only intimate familiarity with all economic problems involved, extensive data on the situation in different industries and trades, very detailed, comprehensive and minute statistical material as to prices, profits, wages, investments, and costs, classified by industries, would make it possible to device a policy toward the desired end. It would, of course, have to be different in different industries and in different sections of the country, and would have to be based on a reliable and objective analysis of the business situation.

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[6] Wage totals, of course, are reduced in any event, due to unemploymnet and the decline of national income.

With respect to hours of labor, the President's power to fix maximum hours of labor for the entire industry or trade concerned, will hardly exert a great influence toward stabilization of business. It is not very likely, although it is possible, that these provisions would be used in a period of an upward movement in order to curb production. Nor is it very probable that, if such use should be made of them, the process of growing maladjustment could and would be checked thereby. These provisions will as a rule be used in times of depression. The question will then arise, as it has in the past, whether or not weekly earnings should remain the same for those whose working days are curtailed in favor of unemployed. If weekly earnings are not reduced, which is not very probable, it would not mean a time, but a wage, movement[7] the significance of which has been dealt with above. But should the use which is made of these provisions remain within the limits of an hours movement (weekly earnings being reduced while the working day is being shortened), it would help to spread the national income over a greater section of the population. We know too little yet of the precise use which is made of the workman's income in such times. It may, however, be assumed that the consumption of consumers' goods of the least elastic demand would be somewhat increased, while the consumption of more elastic consumers' goods would decline; at the same time, savings and hoarding would probably be somewhat reduced. If the scheme were adopted on a large scale—and only under such circumstances could any effect be hoped for at all—an increase of employers' costs of production would in many cases be unavoidable unless a greater efficiency of labor were achieved at the same time, which is hardly probable. It is well nigh impossible to strike a balance theoretically between these various influences and thereby to gage their precise bearing upon the liquidation of depression and the establishment of a new adjustment. Such a work-sharing program would be an appropriate means to attain a new equilibrium on a much lower level if it should prove impossible to use again the productive equipment built before the depression. Such a new level would, of course, imply a much lower standard of living.

Beside wages and hours of labor, the President is authorized to approve or prescribe with mandatory force for the whole industry concerned, "such other conditions of employment as may be necessary * * * to effectuate the policy" of title I of the National Industrial Recovery Act. No speculation is theoretically possible as to what such provisions may mean for stabilization of business in the sense mentioned above. It may, however, be assumed, in the light of experience, that those provisions will have no effect of any importance on stabilization.[8]

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[7] See "Economic Stabilization in an Unbalanced World," by Alvin H. Hansen, New York, 1932, p. 175.

[8] In the original draft of the act, the wording was "other working conditions." Mr. Donald R. Richberg, who cooperated in the drafting of the bill, said before the Committee on Ways and Means (hearings before the Committee on Ways and Means, House of Representatives, 73d Cong., 1st sess., on H.R. 5664. p. 74), "Other working conditions is a rather broad phrase, and my understanding of the intent of this is that it is clearly applicable only to those fundamental working conditions that are essential to the preservation of a fair handling of the labor situation * * *."

B. CODES AND AGREEMENTS

The provisions as to codes and agreements[9] constitute the most powerful and far-reaching potential machinery for interfering with and regulating industry and trade ever set up in times of peace in any democratic country living under a capitalist system based on private property and private profit. The administration has been given an enormous potential power . Without its approval, no code or agreement can come into existence. Without its approval, no branch of industry or trade may enjoy exemption from the provisions of the antitrust laws. By threatening to withhold its approval or to prescribe a code of its own, the administration can bring great pressure to bear upon industry and trade to include provisions which it favors. Furthermore, the power of the administration is enhanced by the authority granted it to cancel or modify codes and agreements at any moment. The act does not specify in any way the range of provisions which such a code or agreement may contain. Moreover, these codes and agreements are supposed to aid in effectuating a policy which, as stated in title I of section 1 of the act, covers such a wide field that almost any measure may be held justified that is not inconsistent with those provisions which the law particularly demands in all codes and agreements. However, one serious and very consequential qualification must be made. The law provides that codes and agreements may not permit monopolies or monopolistic practices. Of this provision, more will be said later.

The significance of codes and agreements for greater stability of the body economic is, for several reasons, extremely difficult to evaluate. So far, the nature and meaning of the law has not been clarified sufficiently to determine what actions by the Government and by the codes authorities are permissible under the act. Until the Supreme Court of the United States renders judgment on some of the legal and constitutional problems involved, no definite, conclusive statement is possible. Furthermore, these codes and agreements may either help to form a basis for positive and successful action in reducing business cycle fluctuations; or, by their very existence and by their functioning, they may make cyclical movements still more violent and more severe, and may reduce, instead of increasing, the likelihood of greater economic stability.

(*a*) Positively, the codes make it possible for the first time to gather statistical data as to production, sales, inventory, prices, costs, investments, and loans[10] which have been entirely lacking. These data are indispensable for any conscious and deliberate economic policy, both during a boom and during a depression. But that is not all.

As indicated above, investments in the capital goods and durable consumers' goods industries have to be considered, in the light of our present theoretical knowledge, the center of the disturbances leading to depressions. Control and regulation of investments in these industries may well prove to be the most efficacious attempt to prevent a boom from going too far. Since the factors which at certain stages of a boom cause excessive investments are not sufficiently known to be directly attacked to the necessary extent and, since monetary measures alone will hardly ever suffice to prevent large amounts of excess and faulty investments, only a method directed toward the investments themselves may be of any value. For such a policy during a boom, the codes and the National Recovery Administration may, for the first time, provide an appropriate machinery, since the codes extend their power over the whole industry concerned and since Government control is provided for in the law. Thus, a centralized economic policy is made possible, based on careful investigations extending over the entire economic system. Through this mechanism, investment policy may, in crucial times, no longer be left to the decisions of individual entrepreneurs. Investments in some significant industries may, thereby, be kept within certain limits at certain times or be slowed down very considerably for a certain period.[11] This would be particularly necessary when a boom is developing rapidly and the danger of overinvestment in certain industries is imminent. Action of such a nature will always be extremely difficult, not alone because of the lack of factual knowledge to guide economic policy, but also because of the difficulty of imposing such a restrictive policy on any industry just at a boom time when profits are large. Business people in most cases will fail to undestand the wisdom of such measures; and a large amount of control would be necessary to insure that the provisions were actually carried out by every member of the industry concerned. While voluntary action would be far preferable, it would seldom be forthcoming, and the President might have to use the large powers conferred upon him mentioned above. It will, however, be necessary for the banking community to lend vigorous support to the enforcement of such a policy. Some success may be hoped for only if the banks which provide—at any rate partially—the funds necessary for new investments, are partners in such a policy. The statistical data to be collected within the industries and perhaps also through the banks, may possibly convince the banks that a restrictive policy is in their own interest.

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[9] See points 1, 2, and 5 in summary of National Industrial Recovery Act previously listed.
[10] In many codes, definite provisions toward this end have been included.

The task during the depression is, if anything, still more difficult. To bring the economic system back to a new adjustment is, in our present system, a goal hardly to be achieved by conscious economic policy. The maladjustments and disproportionalities are seldom known in an exact way either as to their location or as to their magnitude. The extent of necessary curtailment is almost beyond any reliable estimate. Yet, in some single cases maladjustment and overexpansion are clearly visible. In these cases, by regulation of production, the codes may be able to provide the machinery for an attempt to reduce the productive equipment to a volume more likely to be in line with the needs of the whole body economic than the existing one. But the difficulties in pursuing such a policy would be enormous with the businesses concerned. How will the code authorities, much less the administration, know which parts of the equipment should be reduced? How will it be possible, without indemnification, to inflict arbitrarily on certain members of some industries a more or less serious loss of capital which would jeopardize the basis of their business, their production, and their calculations.[12] This instance shows how difficult "planning" will be as long as private property is the basis of our economic system. While private entrepreneurs run the risk of incur-ring losses at the same time that they enjoy the privilege of making profits, they will hardly be prepared to take losses either voluntarily or by action of a code authority or of the administration.

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[11] Such a policy may mean a retardation of technological progress.

[12] Indemnification itself is not particularly expedient and would raise grave new problems.

In still another direction, these codes may become valuable. The disparity of the price movement among the various commodities is one of the most serious symptoms of maladjustment and disequilibrium. It often is in itself a cause of further maladjustment. As far as these movements in a free market are the result of a change in consumers' demands, or in the cost of production, or a result of either lagging behind or running ahead of production, they are indispensable indicators of economic forces and should by no means be interfered with. But as far as disparity of price movements for certain commodities is the result of deliberate action by powerful economic groups or businesses, it may become extremely harmful and may be a source of grave concern, particularly during a depression. This is true not only in the case of cartels or similar institutions, but, also, of a rather considerable and increasingly large number of enterprises whose positions in their respective markets are so strong that they are no longer bound by competitive forces; they can, more or less, dictate prices. When this happens during a depression, the maintenance, or only limited reduction, of some prices (usually of key products) is, in view of the general price decline, a factor which is likely to make the depression more severe and to retard recovery.[13] Should the codes be entitled to price interference, they might exert a great influence toward sound economic adjustment, by forcing prices down. By so doing, they would help to restore, at least to some extent, the much needed flexibility of our economic system. With regard to what has been said before, the difficulties involved need hardly be stressed. The time of action, the extent of action both as to the choice of commodities and as to the amount of reduction, and the reestablishment of proper price relationships are extremely difficult questions. Although for this particular problem the period of depression is extremely important, some action as to prices should also be taken during the boom.

(*b*) There is a certain danger that codes may enhance the severity of depressions. It has, in this respect, often been contended that the codes and agreements introduced through the National Industrial Recovery Act were similar to the European, and chiefly the German, cartels. This assumption, however, is not justified without important qualifications.

Before the present political régime came into power in Germany, cartels[14] were free (only in two cases compulsory) agreements of inaction. Each unit, however, retained its legal independence. Such agreements were entered upon with the deliberate purpose of exerting a more or less monopolistic influence on the market in order to increase the profit of those who adhered to these agreements. On the whole, these cartels in Germany exerted no positive influence toward smoothing cyclical fluctuations. On the contrary, there is some evidence that they rather tended to make fluctuations more severe or, at least, to make depressions more persistent. Experience has shown that cartels tended to further overinvestment to a rather large extent and, by so doing, to aggravate booms and depressions. New investments and overinvestments have been stimulated by many causes in cartelized industries. The security which cartels provided for making profits, very often induced entrepreneurs to enlarge their productive capacity much more than was advisable and much more than they probably would have done without cartelization. A similar stimulus was provided by their desire to secure a larger quota in future cartel negotiations. Furthermore, the heavy profits they made because of cartelization enabled them often to make these enlargements without requiring help from the open capital market; they could thus avoid the scrutiny which new investments floated on the capital market have to face. In addition, much money from the free capital market was attracted by the very fact that profits in cartels were more certain and often greater than in noncartelized industries. And finally, since these cartels often did not include all the firms in the industry in question, a further inducemet for overinvestment was caused through fights between cartels and outside firms, or, more often, through preparation for such fights. During the depression, through maintenance of prices, cartelized industries were usually powerful enough to keep their capital structure unchanged for a long time, even if it had been greatly overexpanded during the boom. This rigidity has greatly contributed to preventing the necessary adjustments from being made at the appropriate time. Thus, through repercussions on other industries, the depression probably went further than it would have gone in a free competitive system and was probably harder to overcome.

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[13] Not seldom, the upholding of prices allows submarginal firms to survive, which they could not otherwise do. The process of readjustment is thus impeded.

[14] The variety of German cartels is so great that any sweeping generalizations should be avoided. There are German cartels which are much more like American codes than others. The following discussion deliberately avoids going into such details. It is concerned merely with the main features of cartels and codes which, alone, are significant for our problem.

A further cause leading possibly to an aggravation of booms and depressions was the attempt made by some cartels to secure stability. It has been claimed that through cartels of the German type a greater amount of stability may be achieved in the industry concerned. That may happen. It may even be possible that in a number of industries existing under such institutions, a certain measure of stabilization could be achieved. It would, however, be a fallacy to believe that such "stability" in one, a few, or even many, industries means greater stability in the whole system. Such "stability" can, in the absence of government control and of a general investment policy, usually be achieved only through manipulation of prices. In the industries concerned, it implies greater price stability than would exist without cartelization, and a partial protection of profits, but ordinarily not stability of output and employment. During the depression, therefore, the noncartelized industries would suffer increasingly, the more the cartelized industries augment their rigidity. Because of their economic and political power, the latter could avoid, wholly or partly, reduction of prices. Possibly, a greater amount of "stability" for a few industries has, therefore, to be paid for by greater instability in production, employment, prices, and profits for the rest of the body economic. Such "stabilization" achieved through independent action by individual industries would, thus, probably make the general depression more severe, as in the case of overinvestments.

The danger that American codes and agreements may work likewise results from their being comparable in certain respects to the German cartels. But there are very important differences, too. The German cartels, as has been said before, hardly ever included the whole industry in question and were thus constantly faced with the consequential existence of outsiders. The American codes (not the agreements which, in this respect, are similar to the German cartels) are automatically valid for the entire industry by the President's approval or prescription. The German cartels were, rightly, considered institutions created to increase the profitableness of the business of their members; their policy was, therefore, entirely based on the special interests of the industry concerned. The American codes and agreements may function in a similar manner, but it is not inevitable that they will. The National Industrial Recovery Act went one step further than the German development—a step extremely essential, and perhaps decisive just in this respect. The barriers which, heretofore, hindered the limitation of free competition and concerted action among entrepreneurs were removed. But, at the same time, the National Industrial Recovery Act subjected the newly created "limited" or "regulated" competition to Government cooperation, supervision, and control. In Germany before 1933, the Government did not succeed, except in a few cases, in gaining genuine and efficient supervision and control of cartels;[15] the formation of cartels in Germany was entirely a private matter of business enterprises without governmental cooperation of any kind. The Government in the United States, however, has authority to interfere with the framing of the codes, with their functioning, and with their entire existence.

(*c*) It is by no means certain yet whether the American codes and agreements will prove to be of less adverse effect on cyclical business fluctuations than the German cartels have been, and whether they will be likely to exert in due time, the much desired influence mentioned above under (*a*). This will depend, first on the efficiency of governmental control and supervision and, second, on the interpretation of the National Industrial Recovery Act with regard to monopolies. In regard to governmental control, no positive judgment is yet possible as to its eventual efficiency. Yet, not only theoretical considerations, but also experience in comparable cases (particularly in Germany), force us to be extremely skeptical of the practical achievements of such control bodies in meeting the most difficult and complicated economic problems. It will, in any event, take a fairly long time to build up a governmental body with experienced, well-informed, and unbiased officials with economic training, which could act efficiently. Moreover, industrial institutions which are empowered to use concerted action and which interfere with free competition (in its usual meaning) necessarily add to the rigidity of the economic system. Only if there is strict and efficient governmental control, can they be trusted to make arrangements which may tend to smooth cyclical fluctuations and to insure greater stability in the whole economic structure.

Closely tied up with the question of governmental control is the problem of monopolies. As mentioned above, the law very definitely states that, within the framework of codes and agreements, monopolies or monopolistic practices will not be permitted. The significance of this provision is as yet wholly uncertain and will be determined by the interpretation which the courts give this provision and by their definition of these terms. In this study, it would be of little value to speculate about the many possible ways of defining monopoly. Suffice it to say, that on the basis of the usual conception of monopoly [16] and of the previous attitude of the courts,[17] there can hardly be any doubt that a large number of codes as they actually have been approved by the President are characterized by monopolistic or, at least, semimonopolistic features. They have authorized price fixing as well as control of production and productive capacity by code authorities for entire industries.[18]

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[15] In additon to the two compulsory cartels in coal and potash, the first attempt toward governmental interference was the cartel decree ("Kartellverordnung") of Nov. 2, 1923. Further steps were taken during the depression in July 1930, and December 1931. The Government was then partly successful in forcing prices down.

The codemaking practice hitherto followed is not decisive, however, in determining the final character of the codes which will result from court interpretation or from a new act by Congress. Moreover, if the codes, outside the labor provisions, are to make for greater economic stability, as they were supposed to do, the code authorities and the Government must be entitled, first, to influence output and productive capacity for entire industries, and, second, to interfere with, and in some cases fix, prices. It may be added incidentally that even the more obvious objectives sought by the codes, the abolition of cutthroat competition and the establishment of "fair competition," will probably also lead to some kind of manipulating of prices or market conditions and, by so doing, interfere with free competition.

Price setting by a group of producers, in itself, has lately been considered by the Supreme Court not to violate the antitrust laws, i.e., to constitute monopoly, when a sizable amount of competition was still effective in the market.[19] But with the codes, price fixing as well as regulation of production and investments would extend over the entire industry involved. It may still be possible to shape the provisions of the codes in such a way as to maintain a certain amount of competition. In most other cases, it will hardly be feasible to develop such methods of regulating prices, output, and investments, and, at the same time, to develop such efficient governmental control and supervision as not to interfere with the traditional American attitude toward freedom of enterprise. Unless a definition for monopoly be given which differs sharply from the usual conception hitherto held, it will scarcely be possible to use codes which conform to the present provisions of the National Industrial Recovery Act, to any great extent, in an attempt to smooth cyclical fluctuations.

The problem thus poses itself whether definite efforts toward greater stability, the results of which are by no means certain, are preferable to the maintenance of traditional views concerning monopolies and free economic enterprise. Many would believe that it is highly doubtful whether monopolistic or semimonopolistic practices can be avoided at all, regardless of the character of the National Industrial Recovery Act. They would feel that a definite, frank provision involving governmental supervision (at least in all instances in which a return to genuinely free competition does not seem practicable) would be preferable, by far, to the situation that existed before the National Industrial Recovery Act became law. During that time, it proved more or less impossible to supress monopolistic or semimonopolistic actions and agreements which, however, were carried on without any governmental control or influence. It may be added in respect to a policy of stabilization, that the fast-increasing amount of integration of business would in itself make greater governmental supervision necessary.

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[16] See, for instance, John Maurice Clark, "Monopoly," Encyclopedia of the Social Sciences, New York, 1933, X, pp. 623 ff.

[17] For a very enlightening discussion see Milton Handler, "The National Industrial Recovery Act," American Bar Association Journal, vol. xix (1933), pp. 551 ff.

[18] See, for instance, George Terborgh, "Price Control Devices in NRA Codes," Brookings Institution, Washington, D.C., 1934.

[19] *Appalachian Coals, Inc. v. U.S.*, 288 U.S. 344, 53 Sup. Ct. 471 (1933).

IV

The foregoing discussion is meant to show in what way the provisions of the National Industrial Recovery Act would have to be used, should a program of longrun stabilization be undertaken. This discussion, however, is not meant to suggest that such a use of the National Industrial Recovery Act could easily be made and could easily be brought to a successful, satisfactory end. Moreover, in frequent instances it was pointed out how many difficulties such as an economic policy would meet, and how much pressure and power would be necessary to put it into effect. Yet such considerations are not useless. They at least show us in what direction we should bend our energies, and toward what goal our economic policy should be centered. They furthermore make it clear how fallacious, even how dangerous, may be some scattered and ill-conceived measures of economic policy which are not based on a broad, inclusive view of our economic system.

In summing up the potential significance of the National Industrial Recovery Act for longrun stabilization, the following propositions may be advanced:

First, the National Industrial Recovery Act alone will never be sufficient for stabilization purposes. It can only be one link in a whole chain of varied economic measures.

Second, entire stabilization of our economic system will be impossible of achievement unless the salient features of this system are fundamentally changed. Economic policy should strive for a development less disturbed than in the past by great dislocations and fluctuations. It should seek to adopt provisions designed to avoid or smooth such disturbances, and, if they have occurred, to assist the process of arriving at a new adjustment.

Third, the National Industrial Recovery Act may provide machinery to assist in such a policy. During a boom it may facilitate the adoption of an adequate policy of wages and, in addition, help to regulate the process of new investments by preventing investments which might later prove faulty or in excess of actual requirements. Similarly during a depression, it may become possible under the present National Industrial Recovery Act to prevent the depression from spreading too far, by regulating wages better than in the past, and to aid the process of readjustment, to some extent. However, the most important and most effective of these measures can be adopted only if the present provisions of the act are interpreted (or changed) in such a way as to permit regulation of production and productive capacity as well as fixing of prices—even if monopolistic practices are thereby involved.

Fourth, although the National Industrial Recovery Act may provide a mechanism suitable as one link in such a stabilization policy, the results to be hoped for will, at best, be very moderate in the near future. We still know so little about what the appropriate and necessary equilibrium of our system may be, about the forces which disturb this equilibrium, the time and place at which disturbances occur, and the place and magnitude in which they have occurred, that the proper measures to be adopted will be extremely difficult to determine and properly to time. Furthermore, it may frequently prove difficult, for political reasons, to put the measures, even if known, into effect. And finally, human behavior may prove to be a factor which is extremely difficult to evaluate and still more difficult to influence.

Fifth, the principles guiding this policy toward stabilization must be embodied in the entire economic policy of the country. Such an economic policy can be devised only if the findings of economic theory are observed much more closely than in the past and if, in addition, an "economic council," or a board having such functions, is continuously studying and analyzing economic development and advising the Government. No generalizations are possible. To offer suggestions for measures in economic policy, each period must be studied on its own merits and all factors—economic, political, and social—must be taken into due account.

[From the New Republic, July 10, 1935]

JOBS FOR ALL

(By Jonathan Mitchell)

Many people complain that Mr. Roosevelt's $4,880 million work-relief program is difficult to understand. The complaint is justified, for it can be called a program only by courtesy. More accurately, it is a grab bag of diverse, inconsistent, administrative projects.

The program can be divided, at once, into two main parts. Rural resettlement, rural electrification, prevention of soil erosion and flood control are original New Deal objectives, formulated during the winter of 1932–33, before Mr. Roosevelt's inauguration. Their purpose is the permanent improvement of the country. Under the Rural Resettlement Administration, an attack is to be made on the fundamental problem of land planning. The Rural Electrification Administration seeks to make electricity the common household necessity it should be. The soil erosion and flood control agencies concern themselves with preserving and restoring the country's agricultural fertility.

The rest of the program has little or nothing to do with national improvement. It is concentrated upon the day-by-day relief of the unemployed. In itself, it is an amalgam of two quite different things —public works and the dole. Shortly after taking office, the administration committed itself to public works as a major recovery measure. Although its public works program has since largely failed, the administration cannot, for the sake of prestige, admit this. In the present program, public works construction has therefore been confusingly combined with a system of dole giving.

The failure of the original public works program supplies the real explanation of the character of the present $4,880 million program. The old public works program did not fail because of the idiosyncrasies of Mr. Ickes. One great difficulty was to find projects both intrinsically justified and inoffensive to special business interests. The program could not have been devoted wholly to superfluous post offices and courthouses. But the two most obvious categories of worthwhile public works, hydroelectric development and low-cost housing, were opposed, respectively, by the power company managements and real estate interests. Very early in the program, the administration reached the point where it should have said: "You power company managements and real estate operators have utterly failed to provide cheap electricity and cheap homes. The PWA is going to provide both of them, and if your interests get hurt, it will be just too bad." Mr. Roosevelt did talk in this fashion to the power companies, and the hydroelectric projects on the program began briskly. But he was unready to challenge the real estate operators and the bankers and mortgage holders behind them. Low-cost housing, which should have been the backbone of the public works program, languished.

The second difficulty lay in the fact that the public works program was, in some degree, inimical to business as a whole. This was because deflation, by the summer of 1933, was approaching its end. To win the gratitude of business, a public works program ought to be put into effect at the very beginning of a depression. As the capital-goods industries falter, the public works program should be waiting to absorb without delay the workers who are discharged, in order to minimize the consequent upset in the consumers' goods market. In the present depression, the public works program should have been ready in 1930. By 1933, a wholly new situation had arisen. Theoretically, business was looking forward to a period of expansion. In its public works program the administration put itself in the position of competing with it for construction workers and investment funds.

Opposition to the public works program from business took the form of protests against Government spending, which necessarily included public works expenditures. Representing this business point of view in the Cabinet has been Secretary Morgenthau, one of the President's closest advisers. Mr. Morgenthau's official duty is to see that the Government's need for money never deranges the New York capital market, and does not discourage private borrowing. The less the Government requires, the easier Mogenthau's task. Ickes' real rival has not been Hopkins, but Morgenthau. His success in Government financing has been directly based on the failure of Icke's public works.

These factors in the collapse of the old public works program have governed the formulation of the new $4,880 million program. Nothing is to be done to offend special business groups, particularly the real estate interests, which the Federal Housing Administration has been tenderly, but vainly, seeking to revive. Business in general must not be discouraged. The program must be conducted as cheaply as possible, so that Morgenthau can regularly announce that the deficit is running below expectations. It must not make unavailable workers whom business might want. In a speech a few days ago to the State works progress administrators, Mr. Roosevelt said: "We should not hesitate for one single minute to stop a certain number of projects if people can be taken back into private industry." The objective of the new program is principally to give regular exercise and training to the workers, so that they will be in good condition when business needs them. It represents the New Deal's hope that business will be emboldened to risk expansion in time to reelect Mr. Roosevelt.

In abandoning public works, however, the administration has not swung back to the dole. The reason is chiefly the great enterprise of Mr. Hopkins. As is generally known, Hopkins coveted the public works program, and thought he could have succeeded where Ickes failed. After the CWA, Hopkins wanted to keep the unemployed at work. He had no money with which to undertake public works, but he did have funds with which to buy the raw supplies of relief. Accordingly, he instituted a program of having the unemployed manufacture a large part of their own food, clothing, and household furnishings. This both cut relief costs and gave the unemployed a less abysmal standard of living. However, it smacked of Upton Sinclair's epic program, and business became afraid of it. Pressure was brought on Mr. Roosevelt to have it abandoned. Anyone but Hopkins would have thought himself trapped. But Hopkins coolly decided to embark upon public works, and set about raising funds. Almost in the fashion of a charity drive, members of the FERA went about the country soliciting municipal appropriations for construction work. While the earlier production-for- consumption projects have not been entirely given up, since last fall most of the FERA work projects have been concerned with building townhalls, courthouses, jails, firehouses, municipal garages and storehouses, athletic fields and grandstands, swimming pools, bathhouses, piers and many other types of bargain-counter public works. Last December, when the $4,880 million program was being whipped into shape, Hopkins was employing 2,400,000. Essentially the new program is a means to enable Hopkins to continue his FERA work projects.

There is a radical difference, it should be noted, between Hopkins' part of the program and the part devoted to rural resettlement, rural electrification, soil erosion and flood control. These are genuine public works. A third part of the program comprises a large amount of the usual Government construction, such as harbor and river improvements and construction at naval bases and Army posts, which have been removed from the "normal" Federal budget in order to create a false appearance of economy. Expenditures of possibly $500 million, which belong in the regular budget, are being concealed in the new program. However, these also represent genuine public works, undertaken for their intrinsic value. In Hopkins' part of the program, the value of the work is incidental. Fundamentally, his part of the program is the dole, with humane trimmings. His work projects are akin to the classes in rugweaving and basketmaking of social-settlement houses. Very often useful attractive objects are produced, but that is sheer luck.

The relief character of the projects under Hopkins furnishes the explanation of the wage rates established for the new program. "Wage" is a euphemism. The new program's "wage" is the old FERA work-relief payment, slightly increased. According to estimates, the increase will range from $5 to $10 a month. It will still be shockingly inadequate for the support of an American family. This is the kernel of the administration's surrender to business. Where real public works, paying union wages, would compete with private employers, the new program has been framed deliberately not to restrict, even potentially, the supply of cheap labor available to industry.

An example will show the extent of the administration's surrender. Under the new program, payments for unskilled labor for region I, comprising the industrial Northeast, will vary from $55 monthly for counties of more than 100,000 people to $40 for counties of less than 5,000. Under the defunct NRA codes, the minimum wage for the northern half of the country in the mass industries was fixed at $14 a week, the equivalent of $60.75 a month. Any hope that the new program will hold firm the existing wage structure is therefore futile.

The total number of heads of families and unattached persons on relief in May was about 4,250,000. Of these, the permanently disabled, the aged and orphaned, will be turned back to the local authorities. The remainder, the employables, numbering about 3,500,000, will come under the new program. About $800 million of the original $4,880 million appropriation will be spent by the FERA for general relief purposes. Another $1,250 million, approximately, has been either allotted by Mr. Roosevelt, or definitely earmarked. This latter sum will provide employment for an estimated 500,000. In this group are the workers to be employed by the Rural Resettlement Administration, by the soil erosion and flood agencies, on Federal highway construction and on projects under the War, Navy, and Treasury Departments, together with the men enrolled in the CCC. Certain of these agencies may receive additional funds, and provide further employment later on. PWA projects already approved will be completed, among them about $100 million in low-cost housing.

The best estimate of the maximum number of unemployed that Hopkins will have to care for is 3 million. For this, his Works Progress Division will be able to command some $2,500 million. If these figures are correct, it will be technically possible for Mr. Roosevelt to make good his pledge of last fall to give a job to every able-bodied worker. But most of these will not be real jobs at real wages. They will be a special form of the dole. It is no secret, however, that the administration hopes it will not have to redeem this pledge in full. Since the start of the depression, the relief rolls have fallen drastically each summer. For the present, the old FERA program, slightly enlarged, will probably suffice. By next fall, the administration hopes fervently, although without visible reason, that business expansion will have begun.

Only two things seem certain about the projects under Hopkins. There will be enough white-collar jobs. The white collar "employables" number about 300,000, and, besides the white collar projects in existence, there are a large number of statistical projects already formulated by various Government departments. The rudimentary start toward national planning during the last 2 years has revealed the need for more information about almost all phases of our economy, and some extremely interesting projects await approval. The second thing that seems certain is that the projects, in general, will be much like those under the FERA. To a large extent, their character will continue to depend upon whether local authorities are prepared to furnish tools and materials for projects of special community value. Recently, when the State works progress administrators gathered at the White House, it was announced that a "substantial number" of projects, many of them of a relatively elaborate nature, had already been discovered. Comprehensive schedules of projects were submitted some time ago by Governor La Follette of Wisconsin and Mayor La Guardia of New York. When Washington must finance a project alone, Hopkins will not undertake expensive construction. The new program is certain to exhibit the extraordinary resourcefulness of Hopkins' organization, but the standbys are likely to be the simplified kinds of construction work: remodeling existing building, resurfacing streets, repairing secondary roads, and digging sewers.

The National Youth Administration, under Aubrey W. Williams and Miss Josephine Roche, deserves particular mention. No other part of the new program shows more intelligence and imagination. It is an attempt to accomplish the general purposes of the CCC camps without remaining boys and young men from their normal environment. It offers perhaps the best solution possible for the most serious depression problem.

It is difficult to generalize on the payments, under the Works Progress Division, that the average worker will receive. About 64 percent of all unemployed are in region I, which, as we have seen, comprises the northeast, and will have the highest monthly rates, from $94 to $40. About 12 percent are in region II, comprising the Middle West and Northwest, and there the range will be from $79 to $32. About 14 percent are in region III, the Southwest, where the range will be from $75 to $21. Ten percent are in region IV, the Deep South, with a range from $75 to the shocking figure of $19. In each region the range is determined by two factors, the skill of the worker and the size of the community. The great majority of the "employables" are in the cities, and will receive the higher rates; the most definite statement, however, that can be made on this point is that almost precisely one-half of the unemployed live in the 143 largest cities. As to skill, about 10 percent are white-collar workers, 20 percent skilled manual workers, 30 percent semiskilled, 15 percent unskilled, 10 percent domestic servants, and 5 percent without previous work experience. Exact figures exist only for selected cities. In New York, for example, 22 percent are white-collar workers, and will receive $94 (since New York is in the highest population category); 19 percent are skilled, and will receive $85; 27 percent are semiskilled, and will receive $65. The rest will all receive $55, and are divided into 12 percent unskilled, 10 percent domestic servants, and 8 percent without experience. The equivalent figures for San Francisco are white-collar workers, 24 percent; skilled workers, 21 percent; semiskilled, 24 percent; unskilled, 12 percent; domestic servants, 11 percent; without experience, 5 percent. The payment rates are the same as in New York. Both cities have an untypically high number of white-collar workers.

Under the new program, the white-collar worker and his family over the country will, with careful management, be able to maintain a minimum standard of life. At the other end of the scale, the unskilled worker and domestic servant would have more to eat and be more comfortably housed if they were in prison, atrocious as most jails are. The $4,880 million program has an impressive sound, but its payment rates are not pleasant figures to contemplate, not so pleasant, for instance, as recent corporation dividend announcements, or the rising prices on the New York Stock Exchange.

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THE IDEOLOGY OF THE SECOND NEW DEAL

(By ARTHUR M. SCHLESINGER, JR.)

The year 1935 marked a watershed. In this year the strategy and tactics of the New Deal experienced a subtle but pervasive change. The broad human objectives remained the same. But the manner in which these objectives were pursued—the techniques employed, the economic presuppositions, the political style, the vision of the American future itself—underwent a significant transformation.

The early New Deal had accepted the concentration of economic power as the central and irreversible trend of the American economy and had proposed the concentration of political power as the answer. The effort of 1933 had been to reshape American institutions according to the philosophy of an organic economy and a coordinated society. The new effort was to restore a competitive society within a framework of strict social ground rules and on the foundation of basic economic standards—accompanied, as time went on, by a readiness to use the fiscal pulmotor to keep the economy lively and expansive.

II

Those opposed to all forms of Government intervention could see little difference whether the intervention was for the purpose of controlling concentration or resuscitating competition; such people continued to detest the New Deal as heartily as ever. But within the New Deal the alteration in course had sharp impact. The disappearance of the National Recovery Administration and, with it, the conception of overhead industrial planning, was only the most spectacular expression of the new departure. There were many other evidences of the change: the growing domination of the Agricultural Adjustment Administration and other agricultural agencies by the more prosperous farmers—i.e., by the clients rather than by the planners; the shift in the Tennessee Valley Authority from an experiment in regional planning into a corporation for the production of power and fertilizer; the defeat of the attempt to make the Reconstruction Finance Corporation an instrument of Government capital allocation rather than simply of Government commercial banking; the establishment of unemployment compensation as a Federal-State rather than a national program; the measures of the 1935 session of Congress looking toward the breaking up of business bigness; the increasing, though as yet largely unconscious, reliance on spending as a substitute for structural reform.

This did not, of course, happen all at once. But the rapid fading out of what remained of NRA after its exorcism by the Supreme Court showed how hostile the new atmosphere was to the old assumptions.

Various efforts were first made to continue NRA agreements on a voluntary basis. Then, in September 1935, Roosevelt appointed George L. Berry of Tennessee Coordinator for Industrial Cooperation, with the mission of organizing industrial conferences to carry on the partnership ideas of NRA. Berry was the president of the Pressmen's Union. He also personally owned a 30,000-acre farm in Tennessee, a quarry, and the largest color-label printing plant in the country (which he had started with union funds). These varied interests no doubt qualified him for the job of reconciling business, labor, and the consumer. It was his professed belief that 70 percent of the old NRA could be saved through spontaneous cooperation. But the efforts of Berry's Council for Industrial Progress to redeem NRA by voluntary methods produced a paper organization, a draft legislative program, and nothing more. "So far as NRA and the Blue Eagle are concerned," said Hugh Johnson, "the poor, pale ghosts that spook around their ancient place have not even the dignity of the honored dead. They are just funny phantoms."

III

Some of the changes of 1935 were at first hard to detect. But what was unmistakable was the change in personnel. The key figures of the first New Deal were Moley, Tugwell, Berle, Richberg, Johnson. From 1935, their influence steadily declined. The characteristic figures of the second New Deal were Frankfurter, Corcoran, Cohen, Landis, Eccles, in time William O. Douglas, Leon Henderson, and Lauchlin Currie. The shift in TVA from Arthur E. Morgan, the biographer of Edward Bellamy, to David Lilienthal, the protege of Felix Frankfurter, was symptomatic.

The second New Deal was eventually a coalition between lawyers in the school of Brandeis and economists in the school of Keynes. But in 1935 the economists were still in the background; the neo-Brandeisian lawyers were at first the dominant figures in the new dispensation. As for the old Justice himself, he watched the events of the year with growing delight. Black Monday, the day the Supreme Court struck down NRA, seemed to him "the most important day in the history of the Court and the most beneficent." The three decisions, he said, far from rushing the country back to "horse and buggy" days, only "compelled a return to human limitations." The time had come to correct the "lie" that the country could make an advance as a whole; it could advance, he said, only locally—in particular communities and particular industries. Everything was beginning to look better—the reversion of social security to the States, the holding company battle, the tax message, the rise to influence of his disciples. "F.D. is making a gallant fight," he wrote Norman Hapgood early in August, "and seems to appreciate fully the evils of bigness. He should have more support than his party is giving him; and the social worker-progressive crowd seems as blind as in 1912."

Brandeis' cry of triumph did not mean the literal triumph of Brandeis' ideas. His faith in smallness was too stark and rigorous. To Milo Perkins of the Department of Agriculture he held forth, as Perkins reported to Tugwell, on "the sanctity of littleness in all fields of human activity." To place men in jobs calling for superhuman abilities, Brandeis suggested, was to corrupt or to destroy human nature. The transition back to small units would be worth any cost in dislocation or suffering. As Perkins rose to leave, the old man told him earnestly to go back to Texas—back to the hinterland, where the real movement to reshape America would originate.

When Brandeis talked in this mood, when he told Tom Corcoran to send his boys back to the State capitals, when he decried the automotive industry on the ground that Americans ought to walk more, he was speaking for an America that was dead. His words were morally bracing but socially futile. There was, indeed, a conflict in the heart of Brandeis' social philosophy. Much as he admired competition, he admired smallness even more; and, when the two principles clashed, it was competition which had to go under. Thus he wanted Government action not only to destroy bigness but affirmatively to protect smallness—even, if necessary, at the expense of competition. He had long ascribed vast importance, for example, to resale price maintenance and other fair-trade laws—laws which denied consumers the benefits of price competition in the interests of keeping the corner grocer and shopkeeper in business. Here the neo-Brandeisians left him. They could never get excited over such measures and were content to leave their advocacy to the independent grocers' and druggists' lobbies. Where Brandeis, in short, exalted smallness and localism per se, men like Cohen and Corcoran were trying to make competition work in an economy which would be technologically advanced as well as socially humane.

Cohen and Corcoran were not economists, any more than Brandeis was. Their specialty was statutes, not programs. Elsewhere in Government, however, program-minded economists were working on alternatives to the first New Deal. Leon Henderson, the vigorous and resourceful chief economist of NRA, viewing the economic future late in 1935 from the rubble of his agency, outlined one program to test the possibilities of competition. Though Henderson could not yet be counted a member of the Corcoran-Cohen group, his suggestions ably stated the direction in which the second New Deal might go.

The key problem, as Henderson saw it, was to restore price competition. He appreciated the strength of the tendencies toward economic concentration and price inflexibility. "Indeed, at the NRA," Henderson said, "so insistent and so convincing were the arguments for price protection measures against cutthroat competition that I was often compelled to ask: Has the nature of competition changed?" This was a fruitful question; and Henderson might have been wise to consider it more seriously. But his disposition was rather to wonder whether one more effort was not in order to revitalize the market. The antitrust laws were not enough; they touched only a small part of the difficulties. More serious were the problems of productivity: obsolescent technology, as in textiles; unwieldy capital structures, as in steel; inflexible wage and transportation rate structures, as in construction; enforced scarcity as a result, for example, of tariff protection. "I favor a positive program for securing laissez faire," said Henderson—a multiple attack on concentration and price rigidity, including the active use of the taxing power; the revision of the patent laws; vigorous antitrust action; encouragement of cooperatives; yardstick competition; tariff reduction, and so on. "Perhaps the good old-fashioned kind of atomistic competition cannot exist everywhere in mass production," Henderson concluded. "If this be so, we need to know it realistically so that we may alter our concepts and our institutions to meet new demands. Certainly * * * a positive program to make it possible would liberate large areas for the agenda of market competition and reveal clearly those areas of production left for the agenda of the State."

IV

Obviously the first New Dealers preferred the tempered and pragmatic spirit of a Henderson or Cohen to the extremism of a Brandeis. But in the end both were equally destructive to their vision. The essence of the first New Deal was affirmative national planning. The men of 1933 believed that, in a modern industrial society, the problems of price-wage-profit behavior and of the allocation of resources could not be left to solve themselves. These problems could be handled, in their view, only by a considerable integration of private and public planning; and their effort was to devise institutional means of associating business, labor, and Government in this process. "For good or ill," as General Johnson said, "we are entering a managed economy. * * * It is not a question of whether we shall have a managed economy, but of who shall manage it. * * * The rout of laissez-faire is rampant through the world."

The first New Deal proposed to rebuild America through the reconstruction of economic institutions in accordance with technological imperatives. In the spring of 1934, Tugwell wrote with confidence, "We have turned our backs on competition and chosen control." But by autumn the bright hopes of 1933, when so much had seemed possible, were beginning to fade away. In October 1934 Tugwell mused in his diary about "the utter impossibility of achieving what it would be necessary to achieve in order to come close to solution of the socioeconomic problem in our generation"; "we cannot," he said, "possibly move fast enough to stave off disaster."

Compared to the bold dream of making America over, the Brandeisian approach seemed mean and flat, a program of mending and tinkering. The New Dealers of 1935, Tugwell said, were denying the "operational wholeness," the intrinsic unity of the system. The running off into side issues, the constant tendency to escape from the structural problem into monetary manipulation or the redistribution of wealth through taxation or deficit spending—all this came, Tugwell thought, from a reluctance to take "the hard way," to accept the "harsh, relentless discipline" involved in a concerted national scheme "in which conflict disappears and the creative impulses of a people are fused in a satisfying effort." "Patching was all the [later] New Dealers knew how to do," he wrote subsequently, "—or, at any rate, all their enemies, as they regained their strength, would let them do." The result, he felt, was the trickling off of the energy of reform into painless—but, for that reason, trivial—measures which left the basic structure of American capitalism untouched. So, too, Charles A. Beard, in Moley's Today, condemned Roosevelt as he had once condemned Wilson: "The cult of littleness and Federal impotence prevails. It is the cult of 'the new freedom' which hurries us on into greater bigness. Only the depth of the crisis in 1933 made it possible for the President to abandon the admitted farce of trust busting for a moment, and to seek the effective functioning of national economy." "The antitrust acts," said Hugh Johnson, "are a throwback to the Neolithic Age of statesmanship, and their blind sponsorship is a sort of jittering caveman ignorance."

Tugwell was always loyal and never vented his exasperation in public. Others among the first New Dealers were less restrained. "Think fast, Captain," said General Johnson in the Saturday Evening Post in the fall of 1935, blaming the trouble on what he called "the Harvard crowd" of "Happy Hot Dogs." Frankfurter, Johnson said in a burst of italics, was "*the most influential single individual in the United States.*" Tugwell, reaching back further, blamed it all on Brandeis, the "doctrinaire parading as an instrumentalist." As a Justice of the Supreme Court, Brandeis had to operate discreetly; but he had found, Tugwell said, two powerful means of influence on the President. "The first of these means was his disciples; the second was the threat of unconstitutionality." His evangelism was implacable. "It is my firm belief," Tugwell concluded, "that it was responsible for the failure of the New Deal." By 1935 Moley, Johnson, Richberg, and Berle had left Washington. Tugwell remained, but he was shunted off to a siding: in 1937 he left, too. The first New Dealers had had their chance. Now others were taking over.

V

From the viewpoint of the men of 1935, the partnership of 1933—government, business, labor, and agriculture, planning together for the common good—had been an experiment noble in purpose but doomed in result. The neo-Brandeisians rejected national planning because they thought it put impossible intellectual and administrative burdens on the planners. Even if it had proved technically feasible, however, they would still have rejected it because they believed that, in a controlled capitalism, capitalism was bound to capture the machinery of control.

Tugwell later noted that the concept of national economic coordination underlying the effort of 1933 was "congenial, fundamentally, only to big business." For Tugwell, this was an ironic paradox; for the Corcoran crowd, it was inevitable and, by virtue of its inevitability, an overriding disqualification. Tugwell could further write, "We lost our battles because, before long, they ceased to be our battles. Our allies became more powerful than ourselves." To the neo-Brandeisians, watching the manufacturers rise to power in NRA and the processors in AAA, this admission only further proved the Brandeisian point. Obviously business would take over any agency of central planning in a capitalist society: the alternatives were therefore socialism, which the neo-Brandeisians rejected as incompatible with freedom, or a restoration of control through the market. The political expectations of the first New Deal seemed to the second New Dealers hopelessly naive.

Yet if the politics of the first New Deal were naive, so, too, were the economics of the second New Deal. Where the first New Deal sensed fundamental changes in the structure of the market and tried to adapt public policy to them, the second New Deal too often supposed that the classical model of the market was somehow recoverable. It felt that government should confine itself to "general" policies, whether of ground rules or of fiscal stimulus, and that the pattern of resource use and the price-wage-profit relationship should be, within wide limits, "competitive" and unplanned. It was, as Corcoran correctly said, "ideologically far more 'capitalistic' than the first New Deal."

The basic conservatism of its economics was disguised by the aggressive radicalism of its politics. In part, this radicalism sprang from disenchantment with the experience of collaboration with business. In part, too, no doubt, it was an opportunistic improvisation, designed to neutralize the clamor on the left. And in part it emerged from a new conception of the problem. While the second New Dealers wanted not a planned but a free economy, they felt that the way to restore the conditions of freedom was to use the powers of government to promote competitive enterprise in a society becoming increasingly interdependent; and this often seemed to involve the economic regulation and political chastisement of business.

In a memorandum to Hugh Johnson in 1933 Alexander Sachs had criticized the NRA approach as "monistic planning akin to state capitalism or state socialism" and proposed instead a system of "pluralistic planning * * * suited to a political and economic democracy." This distinction underlay the political philosophy of the second New Deal. Where the first New Deal contemplated government, business, and labor marching hand in hand toward a brave new society, the second New Deal proposed to revitalize the tired old society by establishing a framework within which enterprise could be set free. It was designed, Tugwell said, "to regulate industry, but not to require of it planning or performance."

A shift was taking place from a managed to a mixed economy: the one tried to convert business through new institutions, the other tried to discipline it through new laws. The first New Deal characteristically told business what it must do. The Second New Deal characteristically told business what is must not do.

VI

The men of 1935 were somewhat different types from those of 1933. If, as Berle once remarked, Columbia was the "early intellectual home of the New Deal," the Harvard Law School was plainly its later home. The first New Dealers were characteristically social evangelists, with a broad historic sweep and a touch of the visionary, seeing America at a great turning of its history. The New Dealers of 1935 were characteristically lawyers, precise and trenchant, confining themselves to specific problems, seeing America as off on a tangent but capable of being recalled to the old main road of progress.

These distinctions should not be pushed too far. Part of the change was the erosion of politics. One group had been on the firing line too long; some of its members were simply worn out, or had been subjected to a political hammering which had destroyed their public usefulness. It seemed time for a change. And to a degree, some of those involved might as well have ended up on one side as the other; only the accident of circumstance placed one man in the class of 1933 and another in the class of 1935. Nonideological figures like Hopkins and Ickes (not to mention Roosevelt) coexisted happily with both. In any case, the issues involved were those of economic program, not of religious principle, and reasonable men might swing back from one to another according to the pressures of the time. The leader of the neo-Brandeisians, Frankfurter, had himself been a follower of Theodore Roosevelt and the New Nationalism in 1912. Walter Lippmann, whose Drift and Mastery of 1914 was the most lucid statement of the case for the New Nationalism, was now beginning work on The Good Society, to be published in 1937, the most lucid statement of the tradition of the New Freedom. William O. Douglas who in 1933 rejected Brandeisianism as obsolescent, became in a few years almost its most effective champion, while David Lilienthal, a Brandeisian in 1933, ended as the prophet of bigness.

Yet, for all the happenstance involved, a difference remains between the intellectual style and texture of the two New Deals. Each, of course, saw the distinction in different terms. Tugwell saw it as between men who had social vision and men who lacked it; Corcoran saw it as between men who disdained legal exactitude and men who valued it—and no doubt both were right. As New Deal social thought lost richness and subtlety, its administrative thought was gaining clarity and precision. The two areas of economic analysis and legal draftsmanship best make the contrast.

In economics, the difference has been noted between the original and probing economic ideas of Berle, Means, and Tugwell and the free-market clichés of Brandeis and Frankfurter. The neo-Brandeisians often had not even thought through the economic implications of their own measures. Such enactments as the securities and exchange legislation, and especially the Public Utilities Holding Company Act, which were designed as exercises in "self-liquidating power" (in a phrase of Paul Freund's), often ended in Government direction of precisely the sort to which the second New Deal was theoretically opposed. "You start to set the patterns of right conduct," reflected Charles E. Wyzanski, Jr., years later, "and you may even get into the business that you have in the public utilities field of actually directing appropriate conduct through a public order enforcible through a judicial decree." He himself concluded that there was "no such thing as the mere elimination of improper practices, no such thing as the mere elimination of force and fraud. Whenever one goes into any area and purports to deal only with nefarious practices, one indirectly if not directly sets up standards of affirmative good conduct." Wyzanski wondered whether those who, like himself, were trained at the Harvard Law School were so clear about this as they should have been. (Cohen was an exception here, as to most generalizations; he well understood the subtle interplay of elements which made the differences between the first and second New Deal, like those between the New Nationalism and New Freedom, less significant in practice than in principle. As Cohen later wrote, for example, "There was a measure of structural planning in the Holding Company Act which might have had more appeal to the first New Dealers if they had had clearer ideas of how they wished to give substance to their planning.)

In the field of law, however, the second New Dealers were more accomplished and sophisticated. This difference, too, Wyzanski ascribed to the Harvard Law School and especially to the influence of Prof. Thomas Reed Powell, whose exuberant insistence on the exact use of words made a generation of students, as Wyzanski put it, "think

20 times before you write that sentence quite that way." The difference emerged in the contrast between the sweeping and rhetorical legal strokes of, say, Donald Richberg, and the exquisite craftsmanship of Ben Cohen. Richberg, moved by a passionate feeling that the imperatives of history required drastic social reorganization, wanted to draft laws and fight cases in terms of prophetic affirmations; he resented the whole notion of pussyfooting around to avoid offending the stupid prejudices of reactionary judges. But Cohen, who felt it more important to make a particular statute stick than to promote a crusade, thought through every point with technical punctiliousness and always showed a meticulous regard for legal continuities. The laws drawn by the first New Deal tended to perish before the courts because of loose draftsmanship and emotional advocacy. The laws drawn by the second New Deal were masterpieces of the lawyer's art; and they survived. Thus the National Recovery Act was, on the whole, a less complicated piece of legislation than the Holding Company Act; but, in the end, it turned out that one was, in the judgment of the Supreme Court, exhortation and the other, law.

VII

The first New Dealers, coming in at the bottom of the crisis, believing society to be almost on the verge of dissolution, attached a high value to social cohesion and viewed the governmental process as an exercise in conversion and cooperation. The second New Dealers, coming in as things were on their way up, were less worried about the fragility of the system and saw the governmental process as an exercise in litigation and combat. They were quite prepared to risk straining the fabric of society in order to make their points and achieve their objectives. Moley ascribes a grim expression to Corcoran: "Fighting with a businessman is like fighting with a Polack. You can give no quarter." Corcoran does not remember saying this; it is perhaps the sort of thing he might have said without meaning it, with regard either to businessmen or Polacks; yet saying anything like this at all expressed the alteration in mood from 1933. Berle, deploring the change, tried to invoke the authority of Brandeis against "the would-be Brandeis follower of today," emphasizing Brandeis' ability "not only to attack an evil, letting the chips fall where they might; but to stand by and work out an appropriate arrangement by which all parties at the end could reach a stable relationship." Too often, Berle added, the neo-Brandeisian "has satisfied his lust for battle in mere punitive expeditions without having a clear picture of the result he intends to get; too often he has failed to recognize that the object is not winning a battle, but creating a socially workable result."

Arthur E. Morgan made a similar point in his bitter fight with Lilienthal. He attacked those who "use any method at hand, including intrigue, arbitary force, and appeal to class hatred. In my opinion," he continued, "such methods, while they may be effective toward achieving a reputation for political realism, do not contribute to the public welfare." The militants, he suggested, were forgetting the moral dimension of public policy. "The manner in which we achieve our ends," he said in a noble sentence, "may have a more enduring influence on the country than the ends we may achieve. The art of planting the seeds of mutual confidence and of giving the young plants a chance to grow is a great art. Most of Europe has not learned it. Let us hope that we in America may do so." The men of 1935 vigorously objected to Morgan's application of these principles. Yet Morgan had a profound point: a battle won at the cost of tearing the Nation apart might not be worth the winning. Still, to this the second New Dealers might have replied that the big interests were not the Nation, and that they had no choice but to fight hard to save their adversaries from their suicidal policies. The correctness of this decision, they could later claim, lay in the extent to which even their onetime opponents eventually accepted the statutes of the second New Deal.

Fundamentally, perhaps, the first New Deal was destroyed by success. The economic disintegration of 1932 could only be stopped by a concerted national effort and a unified national discipline. The method and approach of the Brandeis school would have been ineffective and irrelevant in 1933. But once the first New Deal had reversed the decline and restored the Nation's confidence in itself, then the very sense of crisis which made its discipline acceptable began to recede. The demand for change slackened, the instinct toward inertia grew, the dismal realities of life and mediocrities of aspiration reasserted themselves. New methods were required, relying less on deathbed repentance and crisis-induced cooperation than on older and stabler incentives, such as the desire to make money and avoid the policeman. Most important of all, the first New Dealers had expended themselves; they had run out of policy; they had nothing further convincing or attractive to recommend; and, for an administration which thrived on action, this was the ultimate disqualification.

In the end, the basic change in 1935 was in atmosphere—a certain lowering of ideals, waning of hopes, narrowing of possibilities, a sense that things were, not opening out, but closing in. The hundred days had been a golden spring, like Versailles in 1919, when for a moment a passionate national response to leadership which asked great things made anything—everything—seem possible. The first New Dealers had a utopian and optimistic and moral cast of mind; the second New Dealers prided themselves on their realism. The first New Dealers thought well of human rationality and responsibility. It was their faith that man was capable of managing the great instrumentalities he had invented. The second New Dealers accepted Brandeis' maxim, "Man is weak and his judgment is fallible"; they said with Frankfurter, "We know how slender a reed is reason—how recent its emergence in man, how deep the countervailing instincts and passions, how treacherous the whole rational process." If man could not be relied on to assume responsibility for his own creations, he could be saved from his weakness only as these creations were cut down to his own size.

The shift from the first to the second New Deal was not a whimsical change of direction so much as it was an almost inevitable response to the new necessities of the American situation. The problem had changed between 1933 and 1935, so policies changed, too, and men with them. The next wave of New Dealers, more skeptical, more hardboiled, more toughminded, ostensibly more radical but essentially more conservative, were prepared to work within the existing moral attitudes and the existing institutional framework and to generate by sheer vigor and combativeness the energy to fuel their more limited purposes. As children of light, the first New Dealers had believed in the capacity for justice which, in Niebuhr's phrase, makes democracy possible. As children of darkness, the second New Dealers believed in the inclination to injustice which makes democracy necessary.

VIII

The fight of 1935 was essentially between the planners and the neo-Brandeisians, the devotees of bigness and the devotees of competition. But it would be a mistake to regard this contest as defining the ultimate content of the second New Deal. For the neo-Brandeisians were but the shock troops of the 1935 coalition. They did the bureaucratic infighting and seized control of the strategic strong points. But they constituted only the cutting edge of the second New Deal, not its inner essence. It was Marriner Eccles and the spenders, the silent partners of 1935, who eventually determined the fundamental policies.

The second New Deal was not fully defined until the battle over spending in 1937–38. Still, the issue of fiscal policy did not go unperceived. It has been noted that Brandeis himself had favored Government spending in 1933 and that Cohen from an early point was a thoughtful student of Keynes. The Supreme Court's condemnation of the structural approach of the first New Deal now heightened interest in a resort to fiscal policy. In 1934, when Frances Perkins had confided to Justice Stone her worries about the constitutionality of a social security system, Stone whispered back, "The taxing power of the Federal Government, my dear; the taxing power is sufficient for everything you want and need." The same year Prof. E. S. Corwin, in his "Twilight of the Supreme Court," identified the independence of the spending power from constitutional control as the fatal weakness which threatened to envelop the entire institution of judicial review "in an atmosphere of unreality, even of futility." Thomas Reed Powell, reflecting on the NRA decision, now pointed out how the Supreme Court, without knowing it, had shoved the administration in new directions. "The waters dammed by judicial restrictions on the commerce power," Powell warned, "may break out in unwelcome fields of taxing and spending. What seems a great victory against national regulation may prove to be a Pyrrhic one. What is called the ship of state has other controls than those with wires to where the Supreme Court is quartermaster."

And what was constitutionally possible might be socially desirable as well. In a brilliant column a few days after the NRA decision, Walter Lippmann forecast the development of the second New Deal. Indeed, Lippmann's own evolution showed something of the urgencies which caused the second New Deal to displace the first. In the spring of 1933, he had written that, "for the idea of an automatic return to normalcy we have to substitute the idea of a deliberate attempt to plan, to organize, and to manage our own economic system." This meant, he explained, managing money and banking, managing foreign trade, managing new capital investment, bringing basic industries under greater social control; "there is no escape." The "ideal of a consciously controlled society," he said later in the year, challenged men at last with a transcendent purpose. "I say to you, my fellow students [he was speaking at the University of California], that the purpose to make an ordered life on this planet can, if you embrace it and let it embrace you, carry through the years triumphantly."

All this expressed the first exhilaration of the planning idea. In another year Lippmann drew back somewhat from the enthusiasm of 1933. He began his remarkable Godkin Lectures of 1934, published under the title "The Method of Freedom," with his familiar demonstration of the failure of laissez faire. The self-regulating and self-adjusting character of the old order had been destroyed; under modern conditions the state had no choice except to intervene. But it could intervene, he now emphasized, in two radically different ways. Here Lippmann distinguished between what he called the directed economy and the compensated economy. The directed economy, in its extreme version, was the centrally planned and physically regimented economy of the totalitarian state. The compensated economy, on the other hand, retained private initiative and decision so far as possible but committed the state to act when necessary to "redress the balance of private actions by compensating public actions"—by fiscal and monetary policy, by social insurance, by regulation of business, by the establishment of minimum economic levels below which no member of the community should be allowed to fall.

> In substance, the state undertakes to counteract the mass errors of the individualist crowd by doing the opposite of what the crowd is doing: it saves when the crowd is spending too much; it borrows when the crowd is extravagant, and it spends when the crowd is afraid to spend * * * it becomes an employer when there is private unemployment, and it shuts down when there is work for all.

The shift from a directed to a compensated economy forecast the directions in which the New Deal itself was beginning to move.

By 1935 Lippmann was sharply attacking the notion of detailed central planning. To him it seemed equivalent to trying to stop water from running through a sieve by plugging each hole. The principle of minute control, he had come to believe, was wrong; the economy needed only some form of "general social control"; and the most effective method would be, not to plug the individual holes in the sieve, but to control the flow of the water. What was necessary, he contended in his post-NRA column, were measures of "reflation"—Government stimulus to promote expenditure—rather than measures of "regimentation." "If anything has been demonstrated in this depression which can be relied upon as a guide to policy, it is that reflation—not planning, not regimentation, and not laissez faire—is the remedy." Not only would fiscal policy produce results, but it was compatible with freedom. It "affects only the general purchasing power of the whole Nation, and can be administered without detailed intervention in each man's affairs." It could be used without destroying the Federal character of the American Government or the private character of the American economy. And the authority to use it lay beyond challenge within the Federal power. "The power to fix the wages paid for killing chickens is negligible and would be totally unnecessary, and would not even be desired, if the great power to stabilize the total purchasing power of the Nation were properly used."

IX

The same issue had been considered at greater length a few months before when two Englishmen, Harold Laski and John Maynard Keynes, debated for the doubtless astonished readers of Redbook, the question, "Can America Spend Its Way Into Recovery?" For the Socialist, the answer was "No." As Laski saw it, the only hope was structural change—in his view, the nationalization of the means of production. "It is to avoid this end that the United States has embarked upon its present experiment." Keynes could not have disagreed more. Was salvation possible through spending? "Why, obviously!" he wrote. "* * * No one of commonsense could doubt it, unless his mind had first been muddled by a 'sound' financier or an 'orthodox' economist." An economy produces in response to spending; how absurd to suppose that one can stimulate economic activity by declining to spend! When individuals fail to spend enough to maintain employment, then Government must do it for them. "It might be better if they did it for themselves, but that is no argument for not having done it at all." While productive would be better than unproductive expenditure, "even pure relief expenditure is much better than nothing. The object must be to raise the total expenditure to a figure which is high enough to push the vast machine of American industry into renewed motion."

For Keynes, this was part of a larger argument. He was opposed to any system which would subject most of the economic life of the community to physical controls. "If the state," he believed, "is able to determine the aggregate amount of resources devoted to augmenting the instruments [of production] and the basic rate of reward to those who own them, it will have accomplished all that is necessary." The central controls necessary to influence these aggregates of economic activity would unquestionably mean an extension of State power; but a wide field remained for private initiative and responsibility. In this field, Keynes said, the traditional advantages of individualism—the decentralization of decision; the exercise of individual choice; variety and freedom—would still hold good. In stating this faith in indirect over direct planning, Keynes was putting in a more inclusive way what would become the ideals of the second New Deal.

Of all the minds contending against dogmatism, both of right and left, and asserting the possibility of reasoned change, that of Keynes was the most luminous and penetrating. The Cambridge economist, indeed, represented almost the culmination of the British analytical tradition. He had grown up in the high noon of British rationlism—Cambridge before the First World War, G. E. Moore and Alfred North Whitehead and Bertrand Russell. But he tempered rationalism with rich cultivation; and he strengthened it with extraordinary practical instincts about public issues.

Keynes made clear his skepticism about laissez faire capitalism in the twenties. That condition of perfect equilibrium imagined by the classical economists, in which the interest of each ministered to the interest of all, seemed to him a phantasm. The state obviously had to intervene all the time to keep the economy going; more than that, big enterprise was growing away from the old individualistic economic motives; it was socializing itself. What lay ahead was a new economic society, moving far ahead of the doctrines of both right and left.

Classical socialism, indeed, seemed to him quite as stupid as classical capitalism. The Socialist program was "little better than a dusty survival of a plan to meet the problems of 50 years ago, based on a misunderstanding of what someone said a hundred years ago." He marveled at how a doctrine "so illogical and so dull" as Marxism could ever have influenced anyone.

"For my part," Keynes said, "I think that capitalism, wisely managed, can probably be made more efficient for attaining economic ends than any alternative system yet in sight." He proposed to manage capitalism "by the agency of collective action"—in particular, by a larger measure of public control over currency, credit, and investment, so that basic economic decisions would no longer be left entirely to the chances of private judgment and private profits. Such extensions of public authority need not, he felt, impair private initiative. But all this represented only theoretical possibilities. In the mid-twenties Keynes was pessimistic about actually reforming the system. "There is no party in the world at present," he ruefully concluded, "which appears to me to be pursuing right aims by right methods * * * Europe lacks the means, America the will, to make a move."

By 1929 Keynes had succeeded in converting the Liberal party and Lloyd George to his doctrines. "We Can Conquer Unemployment," a Liberal tract for the general election that year, set forth an ambitious program of "national development," calling for public action to build roads and houses, to promote electrification, and to reclaim land. (A heckler asked how Keynes could support the man whom he had charged a decade earlier with wrecking the peace. "The difference between me and some other people," Keynes blandly replied, "is that I oppose Mr. Lloyd George when he is wrong and support him when he is right.") In a defense of the Liberal platform, entitled "Can Lloyd George Do It?" Keynes sharply distinguished the expansionist program from socialism. For their part, the Socialists attacked the Keynes program as a "quack remedy" and as "madcap finance" which would only increase the public debt.

Keynes was quick to recognize the depression as no passing squall, but rather a protracted storm which would test all democratic resourcefulness. He rejected the counsels of impotence so fashionable among his academic colleagues. "Our destiny is in our own hands," he said. In his "Treatise on Money" in 1930, he worked out the theory of a policy, arguing in effect that, when investment exceeded savings, the result was prosperity, and when savings exceeded investment, the result was depression. If this were so, then recovery required restoring the volume of investment to a point where it would once again offset savings; and this, as he saw it, called for a drastic reduction in the interest rate, a general rise in prices, and extensive government programs of public works.

But these policies presupposed more than ever political parties that were free, as he put it, of both the influence of diehardism and of catastrophe. Where were such parties to be found? Evidently not in Great Britain. The economic ideas of J. H. Thomas, the Laborite, seemed to Keynes as senseless as those of Neville Chamberlain, the Conservative. Ramsay MacDonald's Economy Report struck him as "the most foolish document I have ever had the misfortune to read." Both left and right retaliated in kind. The Tory Sir John Simon said it was tragic to see how Keynes had taken leave of his wits; the rightwing Socialist Philip Snowden called him a fool; and the leftwing Socialists considered him preposterous.

Shortly after Roosevelt's inauguration Keynes spoke once again in a brilliant pamphlet called "the Means to Prosperity." Here he argued with new force and detail for public spending as the way out of depression. Employing the concept of the "multiplier" introduced by his student, Richard F. Kahn, Keynes contended that deficit spending for public works would employ two additional men indirectly for each man directly employed in public projects. He even called for tax reduction; "given sufficient time to gather the fruits, a reduction of taxation will run a better chance, than an increase, of balancing the budget." The budget could only be balanced, after all, by enlarging the national income, and this could only be done by expanding employment. Make bank credit cheap and abundant; lower the interest rate; above all, demand massive and organized government action "to break the vicious circle and to stem the progressive deterioration." But would any government do this? "Unfortunately," Keynes wrote in April 1933, "it seems impossible in the world of today to find anything between a government which does nothing at all and one which goes right off the deep end; the former leading, sooner or later, to the latter."

X

Then Roosevelt's message to the London Economic Conference in July 1933 came to cheer him. Here, perhaps, was a leader prepared to emancipate his nation from enslavement by defunct economists. In September, though, he confessed a certain disappointment. "I fear that the hesitation in American progress today," he said, "is almost entirely due to delays in putting loan expenditure in effect. * * * It seems to have been an error in choice of urgencies to put all the national energies into the National Recovery Act." Still, the flexibility and courage which lay behind New Deal policies continued to hearten him. Later in the autumn Keynes had talks with Frankfurter, who was then at Oxford; and in December Frankfurter forwarded to Roosevelt an advance copy of an open letter to the President scheduled for publication in the New York Times at the end of the year.

In this eloquent document Keynes summed up the vivid hope with which he viewed the American experiment. The problem, as he saw it, was Roosevelt's conflict of purpose between recovery and reform. "For the first, speed and quick results are essential. The second may be urgent, too; but haste will be injurious, and wisdom of long-range purpose is more necessary than immediate achievement." Too much emphasis on reform, Keynes suggested, might upset business confidence. It might weaken the existing motives to action before Roosevelt had time to put other motives in their place. And it might, in addition, confuse the administration by giving it too much to think about and do all at once. This was why Keynes considered concentration on NRA, despite its admirable social objectives, the wrong choice in the order of priorities.

Keynes questioned, moreover, the administration's devotion to raising prices as an end in itself. The techniques seemed to him bad: whether limiting production (though he approved the social purposes of NRA and "the various schemes for agricultural restriction. The latter, in particular, I should strongly support in principle"); or increasing the quantity of money ("like trying to get fat by buying a larger belt"); or fooling around with exchange depreciation and the price of gold ("the recent gyrations of the dollar have looked to me more like a gold standard on the booze than the ideal managed currency of my dreams"). In any case, the right way to get prices up was to stimulate output by increasing aggregate purchasing power; and not the other way round. Deficit spending was the answer; "nothing else counts in comparison with this." In the past, Keynes told Roosevelt, orthodox finance had regarded war as the only legitimate excuse for creating employment by government expenditure. "You, Mr. President, having cast off such fetters, are free to engage in the interests of peace and prosperity the technique which has hitherto only been allowed to serve the purposes of war and destruction."

There is no record of Roosevelt's reaction to this document. A few months later Keynes came to the United States to receive an honorary degree at Columbia. Frankfurter armed him with a note to the President; and on May 28, 1934, Keynes came to tea at the White House. The meeting does not seem to have been a great success. Keynes was a formidable person, and his urbanely arrogant manner may have annoyed Roosevelt. He was capable, for example, of saying publicly (as he did later that year), "The economic problem is not too difficult. If you will leave that to me, I will look after it." Such an attitude might well irritate statesmen. In addition, he was hopelessly quick and patronizing. "Annihilating arguments darted out of him with the swiftness of an adder's tongue," Bertrand Russell once wrote. "When I argued with him, I felt that I took my life in my hands, and I seldom emerged without feeling something of a fool." Still, Tugwell recalled Keynes's attitude in conversations with Roosevelt as "more that of an admiring observer than that of an instructor."

What is more certain is that Roosevelt shared the resentment which old Wilsonians felt toward Keynes ever since the "Economic Consequences of the Peace." In 1923, for example, Roosevelt congratulated the author of a piece in "Foreign Affairs"; "I particularly love the way you hand things to Mr. Keynes." And in 1941, when Bernard Baruch, who had helped negotiate the reparations clauses which Keynes condemned as folly, warned Roosevelt against him, Roosevelt replied, "I did not have those Paris Peace Conference experiences with the 'gent' but from much more recent contacts, I am inclined wholly to agree." To Frankfurter, Roosevelt politely wrote after the first meeting that he had had "a grand talk" with Keynes and liked him "immensely"; and Tugwell mentions subsequent meetings in which Roosevelt talked to Keynes with "unusual" frankness. But to Frances Perkins, Roosevelt complained strangely, "He left a whole rigamarole of figures. He must be a mathematician rather than a political economist."

For his part, Keynes, as was his custom, looked first at Roosevelt's hands and found them disappointing—"firm and fairly strong, but not clever or with finesse, shortish round nails like those at the end of a businessman's fingers." Also, they seemed oddly familiar; for some minutes Keynes searched his memory for a forgotten name, hardly knowing what he was saying about silver and balanced budgets and public works. At last it came to him: Sir Edward Grey—more solid, cleverer, much more fertile, sensitive and permeable, but still an Americanized Sir Edward Grey. When Roosevelt got down to economics, Keynes's disappointment persisted. He told Frances Perkins later that he had "supposed the President was more literate, economically speaking"; to Alvin Johnson, "I don't think your President Roosevelt knows anything about economics."

XI

Keynes found others in Washington more receptive. Steered around by Tugwell, he met a number of the younger men and told them to spend—a monthly deficit of only $200 million, he said, would send the nation back to the bottom of the depression, but $300 million would hold it even and $400 million would bring recovery. A few days later he sent Roosevelt the draft of another New York Times article entitled "Agenda for the President." Here he continued his running review of the New Deal, saying he doubted whether NRA either helped or hurt as much as one side or the other supposed and again defending the agricultural policies. As usual, the best hope remained an increase in public spending; $400 million, through the multiplier, would increase the national income at least three or four times this amount. In detail, Keynes advocated special efforts in the housing and railroad fields. "Of all the experiments to evolve a new order," he concluded, "it is the experiment of young America which most attracts my own deepest sympathy. For they are occupied with the task of trying to make the economic order work tolerably well, whilst preserving freedom of individual initiative and liberty of thought and criticism." With this, Keynes, pausing only to make astute investments in the depressed stocks of public utilities, returned home.

Newspapermen were quick but wrong to ascribe the increase in spending in the summer of 1934 to Keynes. No doubt Keynes strengthened the President's inclination to do what he was going to do anyway, and no doubt he showed the younger men lower down in the administration how to convert an expedient into a policy. But it cannot be said either that spending would not have taken place without his intervention or that it did take place for his reasons. In 1934 and 1935 the New Deal was spending in spite of itself. The deficit represented a condition, not a theory. What was happening was a rush of spending for separate emergency purposes. "I think that 95 percent of the thinking in the administration is how to spend money," said Henry Morgenthau in a morose moment in the summer of 1935, "and that possibly 5 percent of the thinking is going toward how we can work ourselves out of our present unemployment." Certainly, except for Marriner Eccles, no leading person in Roosevelt's first administration had much notion of the purposeful use of fiscal policy to bring about recovery; and Eccles' approach, with its rough-and-ready empiricism, lacked the theoretical sophistication and depth of Keynesianism. Roosevelt's own heart belonged—and would belong for years—to fiscal orthodoxy. "I doubt if any of his reform legislation," wrote Stanley

High, a close adviser in 1936, "would give him as much satisfaction as the actual balancing of the budget."

In 1935 Keynes was a potential rather than an actual influence. But circumstances were making the atmosphere increasingly propitious for his ideas—ideas which received their classic statement in February 1936, in his "General Theory of Employment, Interest and Money." If Keynes' direct impact on Roosevelt was never great, his ideas were becoming increasingly compelling. They pointed to the alternatives to the first New Deal, and they provided an interpretation of what worked and what didn't in American economic policy. As no one knew better than Keynes, "The ideas of economists and political philosophers, both when they are right and when they are wrong, are more powerful than is commonly understood. Indeed, the world is ruled by little else."

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ROOSEVELT'S TREE ARMY

(By Jonathan Mitchell)

Henceforth, the CCC is to have an enrollment of 600,000 boys at a time—double the present number. This means that perhaps one-third of the depression youth is to pass through CCC camps. Created overnight, the CCC is on its way to be an institution of immense social importance.

The CCC's original objectives were, first, to prevent the Nation's male youth from becoming semicriminal hitchhikers and, second, to make possible conservation work on a grand scale. In these aims it has succeeded. It has kept boys off street corners and out of hobo jungles along automobile trunk roads. It has been a godsend to boys who, because of the depression, have not had enough to eat. Recently the writer talked with a shy, blond boy from a rural slum, the skin of whose arms and legs was blackened and cracked from malnutrition. A few days in camp, and the boy had gained 5 pounds, his skin was healing, and he was happy as a cricket. The War Department estimates that the average gain in weight among the boys has been 8 pounds.

Experts say that, as a result of the CCC, conservation work in America has been advanced by 20 years. The bare replacement value of projects completed by the CCC is put at $335 million. Forests on Government- and State-owned land have been dotted with observation posts, connected by telephone, and crisscrossed by roads and trails, so that fires, once detected, can be quickly reached. The CCC has made the first serious effort to deal with soil erosion and, throughout the Middle West, temporary check dams have been built to retain surface water. Around Norris Dam, where the boys have had the use of machinery belonging to the TVA, their soil erosion work has been extremely elaborate. They have also planted many millions of young trees—the jobs from which their nickname, Roosevelt's "Tree Army," comes. They have fought the pine twig blight and the Dutch elm disease, restored Revolutionary and Civil War battlefields, wiped out mosquito plague spots in the South, and done many other useful jobs. To cite figures, up to April 1, the boys had spent 15 million man-days fighting forest fires, built 50,000 miles of forest roads and trails, strung 25,000 miles of telephone wire, constructed 800,000 erosion dams, excavated 3,000 wells, planted 236,000 acres of tree seedlings, and dug 1,200,000 yards of mosquito-control ditching.

Necessarily, for most boys, the camps form a training school in adult social behavior. In this part of its task, the CCC has only partially succeeded. Many camps have done well with their boys, but a substantial minority of camps have tended to become small, mutinous prisons, in which the social attitudes acquired by the boys have been altogether bad. Primarily, this has been due to the weakness of the CCC's central organization. Nominally the CCC's head is Robert Fechner, whose office is supposed to be a coordinating agency for the War Department, which furnishes the camp commanders; the Office of Education, which furnishes the camp educational advisers; and the Interior and Agriculture Departments, which furnish the experts who direct conservation work. In practice, however, supervision over the camp lies with the commanders of the nine Army corps areas. These corps area commanders are conscientious enough about the physical health of the camps—in inspecting water supplies and latrines—but, for the most part, they have neither time nor desire to worry about the camps' social atmosphere, as expressed in the boys' recreational and educational activities. Probably it is fair to say that, in the Army, the CCC is regarded as an unwelcome chore, outside the proper interests of professional fighting men.

Fechner himself has no way of estimating conditions in the 1,600—soon to be 2,900—CCC camps, except through personal visits, and through his 9 investigators, 1 in each corps area. An old-time union official and vice president of the International Machinists, Fechner has been greatly concerned to see that all construction work is done by union labor, and his nine investigators have been kept busy checking up on contractors. For his knowledge of individual camps, he has had to rely on the corps area commanders. The more serious weakness in the CCC organization, however, has come from the long feud between Fechner and the CCC educational director, Dr. C. S. Marsh, which will be discussed in a succeeding article.

The result of the War Department's indifference, and the friction between Fechner and Marsh, has been to throw great responsibility on the camp commanders. When the CCC was first established, camp commanders were all Regular Army officers. During the last year, Reserve officers have been substituted in all camps except that at Warm Springs, Ga. This camp is regularly visited by Roosevelt, and the War Department, which thinks of everything, keeps a Regular Army officer at its head. The Reserve officers all belong to the college unemployed, the group that has suffered most from loss of self-esteem and unaccustomed hardship. Most of them regard their jobs in the CCC as a stopgap to better times that are disappointingly slow in coming. It is to their credit that they have been able to show the enthusiasm and iniative they have.

A camp in the eastern part of the country in which a food riot lately occurred illustrates, however, the sort of situation that is possible under the present lack of centralized supervision. In this camp, the boys refused to eat, knocked the company commander's assistant down, kicked him and sent him to the camp infirmary with painful injuries. The company commander in this camp is a man in his thirties, and has been a year in the CCC. In his first camp, in the West, he showed great enthusiasm. He organized a band, and took it to play at outside dances until the organized musicians of the State justifiably complained and forced him to stop. With his assignment to his present camp, however, his enthusiams died. He has a wife and two half-grown children, and he began to worry over his future. Although he had liked the boys in the first camp, in his second camp he began to hate them. The boys, quick as wild animals to sense an older person's real feelings, grew uneasy, restive, and the food riot and the beating of the company commander's assistant followed.

The result of this superficially trivial incident has been extremely bad. The camp resembles a jail, and social behavior appropriate to a jail, toadying, malingering, wreaking petty revenges, is being inculcated in the boys. The camp's recreational and educational activities have lost all life. The company commander is bitter about the boys, but does not dare relieve his bitterness by discharging the leaders, since he fears an investigation by the corps area headquarters that might cost him his job, which he needs. This situation may easily run on for weeks. The gravest accusation against the CCC is that it has no specialized machinery for uncovering cases like these and correcting them.

It should be repeated that a majority of camps have done well with the boys. Probably the best camps are those with enrollee self-government—enrollee is the CCC term for enlisted men. Many other camps have enrollee councils and camp forums. Such devices, giving the boys responsibility for their own social actions, are evidences of a good camp. They are unworkable except where camp commander and boys trust and like one another. These camps are the ones with baseball squads, camp newspapers, dramatic companies, weekly movie nights and fortnightly dances. Along with this successful majority of camps, however, must be recognized an unsuccessful and morbid minority. The size of this minority can be gaged from the CCC's estimate that it has had a 20-percent turnover in company commanders. This is another way of saying that a fifth of the company commanders appointed have been so conspicuously unfit that it has been necessary to discharge them. It is also revealing that, while the physical health of the boys has been extremely good, cases of mental breakdown have been unexpectedly high. In March 1934, a special order was issued rigidly to exclude all boys with histories of mental or emotional instability from the CCC, "since their difficulties are likely to be increased, rather than improved." A few CCC disasters have attracted national attention, notably the killing of Lt. J. L. Gatlin at Pine Valley, Okla., and the riots at Bear River, Calif., West Orange, N.J., and in the Worcester, Mass., railroad station.

One of the greatest handicaps of the CCC has been the meagerness of its equipment. Many camps cost less than $20,000 apiece, and this sum covered company commander's home, infirmary, barracks and messhall. At the start, for athletic equipment each camp of 200 boys received 4 horseshoe-throwing sets, 2 volleyball sets, 4 sets of boxing gloves, and bats, balls and gloves for two baseball teams. For educational material, a camp was given 6 sheets of writing paper and 2 envelopes per man per week, a set of Army and Navy hymnals, a dictionary and half a dozen Spalding athletic handbooks, and the right to share with other camps in the use of a traveling library of detective stories.

In practice, the equipment of the camps has depended chiefly on the enthusiasm and enterprise of camp commanders. Good camp commanders have made friends of leading citizens in neighboring towns and begged athletic equipment, musical instruments, books, magazines, drawing materials, tools, material for window curtains, grass seed, the use of a printing press for a camp newspaper—almost anything. For absolute necessities, camp commanders have the right to ask for additional funds from their corps area headquarters, but a majority of them have relied on their own wits. The writer knows one camp commander who, when the barracks roof leaked, bargained with a neighboring farmer for a carload of potatoes at far below the prevailing market price, and with the money saved on his potatoes, hired local carpenters at scab rates to repair the roof. "I've broken every rule of the CCC," he said, "but my boys sleep dry."

In the original camps, the only place the boys had to sit in during the evenings was the mess hall, usually a long, narrow enclosed shed, without partitions. If a few boys wished to study, the rest had to keep silent; if a few wanted to play games, there could be no studying. The mess halls were lighted by weak, unshaded bulbs along the ridgepole, which made reading extremely tiring. The test of camp, therefore, rapidly came to be the ability of camp commander and boys somehow to improvise tools and materials for the building of a proper recreational hall—rec hall, in CCC language. Immense ingenuity has been displayed by certain camps; some of the rec halls represent little less community effort than do the Gothic cathedrals. In a recent issue of the national CCC newspaper, Happy Days, the Willow Springs, Mo., camp boasts of the first CCC system of indirect lighting, the lights of the side walls of its new school building "being shaded by one-half of an ordinary wooden chopping bowl." The account continues: "The four center lights are also shaded from the underside by wooden bowls. A swell table lamp is on the reading table for the use of the mechanical drawing class."

In camps in which the company commander has lacked resourcefulness the boys have suffered greatly from the poverty of the camp equipment. The satisfying of such a vital need as a recreational hall ought not to be left to chance and pioneering instinct of a company commander. A thousand dollars spent on each camp would make an immense difference. For 2,900 camps, that would mean an expenditure of $2,900,000. With a third of the Nation's youth entering the CCC, this does not seem a profligate sum.

During the last year and a half, the CCC has been the scene of an ambitious attempt to give a large part of the male youth of this country a conscious, realistic social point of view. The force behind this attempt has been Dr. C. S. Marsh, until recently the CCC's educational director. Boys do not come into the CCC unless they are jobless, unmarried and members of families on relief. They know well enough that the normal course for young men of their age would be to find jobs in their native towns, take girls to the movies and plan on getting married and founding homes. For at least some of the boys, their own predicament and that of their families is the cause of intense worry.

In a recent issue of the national CCC newspaper, Happy Days, there is a naive little story of a fictional CCC boy who performs prodigies of wit and audacity to win a girl in the neighboring village only to find she is about to marry a non-CCC boy who has a job. A few weeks ago, in Camp 222, in Middleburgh, N.Y., a debate was held before a tense audience on: "Can a Man Support a Wife on $25 a Week?" In one Western camp, a boy became hysterical during his first interview with the camp educational adviser. Later he explained that for 4 years everybody else had treated him as a failure and no good.

When the CCC was first set up, the tendency of camp commanders was to dodge any discussion of the boys' difficulties, and, instead, talk about the splendid opportunity they were being given to live in God's outdoors, and inhale lungfuls of clean, bracing air. Marsh determined to give them an honest explanation. He issued a "Handbook for Educational Advisers," in which he said that the CCC educational division would attempt: "To develop as far as practicable an understanding of the prevailing social and economic conditions, to the end that each man may cooperate intelligently in improving these conditions." He added the comment: "Next to the men's interest in future jobs, the motive most common is likely to be the social and economic crisis which has led to their unemployment."

It was impossible for Marsh individually to train his camp educational advisers overnight. What he needed, and needed in a hurry, was a series of proper textbooks. Fifty percent of the boys in the CCC have never gone beyond grammar school, and only 1 in 5 has managed to complete high school. College textbooks on economics would be beyond them, and children's books could not hold their interest. Marsh determined to create special texts, printing them in editions of 300,000. He asked Fechner, head of the CCC, for funds, and found him wholly apathetic. A forthright, aggressive person, Marsh promptly went outside the Government, and obtained $40,000 from the general education board. For the first of his series, he coerced Professor Ogburn into writing a pamphlet, "You and Machines," on the industrial revolution and its modern consequences.

The Ogburn pamphlet was as nearly perfect for its purpose as human wit could make it. It was given wide margins and printed in 12-point type on nonglare paper, so that boys could read it without strain in wretchedly lighted messhalls. Its front and back covers were formed by a single photograph, showing a flywheel looming above a worker, and a cartoon by F. G. Cooper was put on every other page, to attract the boys' interest. Ogburn's text was entirely in one- and two-syllable words, and was quick-moving and provocative. Other pamphlets commissioned by Marsh—none except "You and Machines" were ever printed—were "Youth and the Depression" and "Strikes."

As the daily press recorded at the time, Fechner ordered Ogburn's pamphlet suppressed, after having had it read by an assistant. The explanation offered by Fechner's friends is: "Maybe the Ogburn pamphlet was all right. But some of us in the labor movement (Fechner is vice president of the International Machinists) remember the Colorado Fuel & Iron strikes, and the Homestead strike. We don't believe that the American people want men paid by Rockefeller or Carnegie money telling our boys what they ought to think." Since "You and Machines" shows the present order in a painfully realistic and unflattering light, and Fechner himself once called it "too pessimistic," this seems very thin. A likelier explanation is the complete disagreement between Fechner and Marsh.

Fechner's hostility prevented Marsh from doing many things he had planned to do, and presumably was the chief cause of his resignation on May 1. However, one feat accomplished under Marsh was an improvement in the CCC camp libraries. At their establishment, camps had only the regulation traveling libraries of the Army, which contain about a hundred books apiece and are exchanged among Army posts. They are made up from a general list of some nine titles, consisting almost exclusively of the works of Rex Beach, Robert W. Chambers, James Oliver Curwood, J. S. Fletcher, Zane Grey, Talbot Mundy, E. Phillips Oppenheim, Sax Rohmer, Rafael Sabatini, and Edgar Wallace. The War Department has now been persuaded to add books by other authors, including Louis Bromfield, John Buchan, Edna Ferber, T. E. Lawrence, Emil Ludwig, William McFee, Christopher Morley, Booth Tarkington, Thornton Wilder, and Stefan Zweig. A very few books deal definitely with economics and politics: Charles and Mary Beard's "History of the United States," John T. Flynn's "God's Gold," and Matthew Josephson's "Robber Barons." A great victory gained by the educational division was the placing of an inexpensive encyclopedia in each camp.

Most of what Marsh accomplished, however, was done through his educational supervisors, one in each of the nine Army Corps areas. A number of these have been extremely able men. Away from the eye of Fechner, they have separately carried out many of the policies that Marsh wished to have adopted openly by the whole CCC. In the Fifth Corps area, for example, Dr. Nat T. Frame has tried to shift the boys' often morbid preoccupation with marriage to realistic discussions in their camp forums. Three of the proposed discussions, in part, follow: "Second meeting: Name the features of the family among Hebrews, Greeks, and Romans. Was it the whim of some individual that such laws (forbidding a man to have many wives) were passed, or what was the origin of the monogamous family? Third meeting: What position does the man occupy in the family of today, as compared with his position in the early American family in regard to authority and discipline? Fifth meeting: Debate: Resolved, the old-fashioned family is no longer needed in American life."

Dr. Frame has also tried to drag out into the light the half-conscious sense of injustice that many boys feel about their pay. When a boy joins the CCC, he allots $25 of his $30-a-month wage to his family. In many cases, incidentally, his family is thereafter removed from the relief rolls. The boy thus has only $5 a month for himself. Since he lives and works under institutional discipline, it is easy for him to feel that his position does not greatly differ from that of a boy in one of our model jails—a jail, for example, like New Hampton Farms in New York. An outline for a camp discussion of this problem is: "What does an enrollee get for his labor? Is it in kind or in money? Is it a fair wage? How much do men of like age, education, and experience get paid? Is that a fair wage? How much do college graduates get when they begin work these days? How many of them get jobs at all?" In another corps area, boys are urged to discuss "Youth and the Depression," the title of one of Marsh's suppressed pamphlets, and a number of official Soviet documents on youth in Russia are included in the suggested reading.

Because of Fechner's noncooperation, lack of funds, and the meddling of Democratic patronage distributors, Marsh had difficulty in getting camp educational advisers of the type he wanted. There has been a 33⅓-percent turnover in camp advisers. As late as last February, 430 camps were still without an adviser serving full time. In a majority of camps educational courses were first set up by the camp commander, and for the most part consisted of shorthand, typewriting, and English, for no reason except that material for them was easily available. Marsh recognized the bitter truth that boys in the CCC cannot hope to compete for white-collar jobs with boys whose parents have been able to keep them in high school, and quietly sought to shift the CCC's vocational courses to the manual trades. Typewriting still has the largest enrollment, but close behind it comes auto mechanics, chiefly because each camp possesses a number of trucks, of which the boys are as proud as a cavalry regiment is of its horses. Many boys study forestry, oil engineering, and other phases of their conservation work.

After these come courses in general adult knowledge, together with a group under the repellent title of "Hobbies." All educational work in the CCC is entirely voluntary, and advisers are under orders to follow the boys' interests. Among the courses are: French, Italian, Latin, physiology, psychology, social and economic problems, trigonometry, aeronautics, archery, auction bridge, auctioneering, barbering, Bible study, dancing, operation of diesel engines, dramatics, embalming, etiquette, public speaking, rugmaking, sketching, and taxidermy. The course in dancing has 1,200 students, and was instituted partly to give the boys a regularized means of seeing girls. Etiquette followed when it was discovered that, under the eyes of their comrades, the boys were too shy to treat the girls civilly. One boy is studying embalming, takes a correspondence course in it. A taxidermy class, according to report, stuffs the household pets of the neighborhood for pay, and with its profits has furnished the camp recreation hall. Fifty-four percent of the boys in the CCC are participating in the educational work. Its great weakness arises from the fact that all studying is done at night, when the boys are exhausted by a hard day's work out of doors. The program will never amount to as much as it should until daylight time is provided for it.

The two commonest accusations against the CCC are, first, that it is militaristic, and, second, that it is a step toward fascism. It is true that, at its inception, the CCC was used by General MacArthur as an exercise in war mobilization. He boasts that, in the 90 days after the CCC was authorized, the Army enrolled 270,000 boys and transported 55,000 of them to camps across the continent, while, in the 90 days after the declaration of war on Germany in 1917, only 181,000 men were mobilized, and only 16,000 were embarked for France. Except for this episode, however, there is little substance in the charge of militarism. Military drill is forbidden, and this prohibition is generally, although not completely, observed. When the New York Daily News presented Fechner with a petition, bearing 30,000 names, for military drill in the CCC, he refused even to consider it.

To the accusation of fascism, no wholly satisfactory answer can be made. The trend of the CCC's educational program is altogether away from fascism. The official purpose of the CCC, which is to conserve and improve America's resources by cooperative effort, without profit, for the benefit of all citizens, does not jibe with Fascist ideas. However, at least in theory, it is impossible to take 300,000, or 600,000, young men out of the traditional American family system, and organize them on a basis of loyalty to each other and their camp leaders, without by the same act creating a political instrument of unknown potentialities. Quite innocently, a continuous effort is being made to create among the boys a CCC esprit de corps. More than 900 camps have their own newspapers, many well printed on borrowed presses. Visits of boy leaders and athletic contests take place among camps. For a dollar, you can buy a metal CCC signet ring, with a pine tree surmounting crossed axes. In at least one instance, boys have been discharged by their camp commander for communistic beliefs, although it should be said that circulation of the Communist youth organ, Spark, is officially permitted.

Frequent demands have been made to have the CCC wholly removed from the War Department's control. Against this, however, it must be recognized that many camps are situated in isolated spots, far from the protection of ordinary civil government, and that the Army has had long experience in maintaining essential standards of order, sanitation, and fire protection. In the opinion of the writer, the two great needs of the CCC are better central organization, and an ending of the enmity between Fechner's office and the educational division. During the next 2 years, however, a partial remedy for both these faults would be simply to give increased and specific powers to the educational director chosen to succeed Marsh. Through his corps area supervisors and camp advisers, an educational director, if permitted, could rapidly uncover camps that were doing badly. With sufficient authority, he could also rapidly give the CCC's educational program the unity it needs. However, because of his labor sympathies, and as a barrier to militarism and fascism, Fechner probably ought to remain as the CCC's head.

Most people who have had anything to do with the CCC wish it to be made permanent, and talk of William James' moral equivalent of war. Nevertheless, democratic institutions are probably best preserved when adolescent males remain within the family system, and woo girls of their fancy, and plan for families of their own. Camps might perhaps be continued by the Government for boys who wish to make forestry a career. With this exception, the less this country does to prolong the gang age in its youth, the better.

[From the Forum, March 1937]

CAN WE EMPLOY THE 8 MILLION?—A DEBATE

I—Scientifically, in 2 Years

(By John G. Jones)

I admit that it takes optimism to believe that within the next 2 years industry can assimilate our 7 to 8 million unemployed.

I have that optimism but I believe it is a 1937 brand of optimism, firmly rooted in fact and reason. The only intangible I put into it is my concept of American business character—its ability to learn and to adapt. Shall we scrap such faith in the high-powered enterprise, daring, and vigor of the American businessman? I, for one, refuse.

Only those who are closely associated with the business executives of America realize what has been going on in the last 7 years—the sort of thing that doesn't get much publicity. There has been a high mortality among the kind of executive who was most criticizable for the predepression errors. Those men are out. In their places are men with steadier hands and more analytical brains, the kind of executives who virtually let science and fact and consumer need run their businesses, not arbitrary opinion and habit. They are realistic and adaptable and realize fully that America wants her businessmen to take a responsible social point of view. Good old-fashioned individualism, yes, but not at the expense of millions of workers who need jobs. Industry accepts the responsibility; the leaders have so declared publicly, and they mean it.

How is industry going to absorb our persistently large volume of unemployment? What are America's businessmen going to do with this tough problem, now that it is generally admitted that only they have capacity for the task?

First of all, industry is going to attack the problem at the choke point, which already is evident—the scarcity of skilled labor. Business is laying plans for this and is frankly putting up to labor leaders their responsibility for helping. American industry is an organization of skilled, not unskilled labor, and even as I write there is an unfulfilled need for nearly a million skilled workers. Quick factory schooling under highly modern, well-equipped teachers is the answer, and many of our young men who are now fumbling futilely at white-collar jobs are going to become skilled mechanics, because of the opportunities and the fine working conditions offered.

Second, industry is going deep into modernization of plants, 60 to 70 percent of which are admittedly obsolete. This is going to cut costs and even cut labor—but in doing so it is going to strike a modernizing pace, a new consumption pace, made possible by new low prices and good wages, which will take up the slack as fast as it appears. The heavy industries (where is found the deepest pool of unemployment, especially of semiskilled and unskilled labor) will be the direct beneficiaries of this modernizing program.

Third, industry is going to stamp out more and more so-called child labor and sweatshop labor, either by law or voluntarily, by industry codes. Today there are only 9 children per 1,000 workers in the manufacturing industries. It is not this kind of industry which is the great child-labor employer.

Fourth, industry is looking for a good rise—at least 5 percent in 1937—in exports, and this will help much in giving employment.

Fifth, industry has widely adopted the decentralizing principle, and this makes for healthier employment conditions.

Sixth, industry is spending vast sums on research, and will spend more, confident that new goods, new industries, lower prices are possible; such new developments all tend to widen employment.

Seventh, industry is making very effective and determined efforts to reduce seasonal variation, which is a prominent cause of unemployment. The automobile industry is an outstanding example—it has now no more than an 8-percent seasonal drop.

Eigthth, industry realizes its moral responsibility to employ workers over 40 years of age, wherever possible. President Chester of the National Association of Manufacturers has publicly committed himself on this point.

Ninth, industry is on its toes as never before, alertly studying every opportunity to push ahead, with a strong will to employ more men—proof of this being that the manufacturing industries have been the first to take up the slack. They will continue to be first, I am certain. Employment in member firms of the National Association of Manufacturers in December was 106 percent of 1929; in all occupations 92.8 percent. We must not forget that there are 41,000 fewer employing firms today than in 1929.

Tenth, business, in cooperation with banking and government, has now made available a much better flow of capital into industry, new and old, at lower rates. This is a strong and direct incentive to new employment.

I might cite other factors, but surely these are enough to indicate a *factual basis for my belief that we will absorb* America's employables. Even in 1929 there were nearly 2 million unemployed; but I believe that our more balanced situation today will cut that in 2 years from today—quite certainly so if the workers respond to the plans in their behalf.

The surest road to banishing our unemployment is expansion of production. The further reduction of working hours is a fallacious philosophy, for we are now below the NRA 40-hour level, and the proposed 30-hour level cannot help. What we very greatly need is the lowest possible mass production prices, coupled with heavy production. Then we get the purchasing power to move this production into consumption and we also get plenty of employment. Dr. Moulton of the Brookings Institution believes, and so do I, that 8 or 9 million more workers can be used in the production of ordinary American consumer goods, even without new industries. This would definitely cancel out all our present unemployment.

We are already at a point where employment in the production of consumption goods is equal to if not ahead of 1929. In the heavy, or durable goods field employment showed an 18- to 25-percent improvement between May 1935, and December 1936. This is a very satisfactory rate of growth. If it holds, it is easy to see that the unemployment pool is going to be drained very rapidly in this, the most critical of unemployment fields. Hope lies in the fact that the durable goods field uses a larger proportion of semiskilled and unskilled labor—the very types presenting the gravest problems.

We are now entitled to scrap 1929 as a yardstick, for the 1936 Christmas trade in many respects surpassed it, and 1929, for various technical, financial, and other reasons, is a false and even an inadequate measure for today. Even the 2 million unemployed of 1929 should not be a discouraging figure, for conditions are far sounder today, on the whole. The 1936 gains in the number of employed are especally favorable, because during 1936 many part-time workers became full-time workers, and this gain does not show up in statistics of added numbers of employees. And the 1937 demands for labor will be largely for new employees, which is another reason for expecting faster progress in employment.

And, if we should begin to lift our American standard of living above the $2,100 per year usually cited and which many believe should be nearer $3,600, we shall in a few years consider it very quaint that in 1936 we were wondering what could be found for American labor to do.

This Nation is dominated by the idea of scientific advance and vigorous, aggressive initiative. It is unthinkable that we should now cringe before the challenge of unemployment, after having been through our recent baptism of fire and finding our way out of economic paralysis. Industry, 1937 model, is chastened, rejuvenated, vigorous, and embattled before its major enemy, joblessness. By 1939 every honest, competent worker will have a job.

II—Not by Leaving It to Industry Alone

(By J. George Frederick)

Let us not allow our consciences to be lulled to sleep by optimistic wishful thinking about those tragic 8 million unemployed who, despite the fact that the depression is said to be "over," despite the almost recordbreaking volume of Christmas season business, stand like ghosts beside the feast, patiently awaiting our aid and suggestion.

Let us face the issue: Industry will not be able to absorb them for some years to come, despite valiant promises. The problem is beyond industry; it is—and will remain—a social, governmental problem. All the longtime trends are relatively downward in industrial employment: fewer manufacturers, more mechanization, greater output per man, fewer number of hours per week, fewer very old or very young persons employed, fewer unskilled workers.

American industry is geared for efficiency in volume of production and lowness of cost; not for making places for surplus workers. Efficiency of production is no respecter of jobs: it cannot take a jobmaking attitude without losing its efficiency. The American system is to make quantities of goods at very low prices with the fewest human hands possible, and this system is probably irreversible; we shall never go back on it, because in the main it is a good system. The best hope is to push it even faster forward, thus obtaining still cheaper unit prices, and then to meet the resulting problems with cooperative wisdom and effectiveness. To expect magical developments in the next 2 years, calling for employment for all, is to ignore the realistic truth about American factories: They cannot in 24 months gear up for such a volume of production, because the plants are too obsolete and purchasing power not ready. The whole Nation must tackle this grave problem, not industry alone.

Even in 1929 industry could not absorb unemployment—there were 1,500,000 to 2 million unemployed. How fantastic, then, to suppose that we could do so now, when since 1929 we have not only fewer factories, greater output per man, and many less hours of work, but also a 4,434,000 increase in our army of workers—just because boys and girls grow up and reach the age of self-support. The boy who was in knee breeches in high school in 1929 is now a full-grown man and a voter today, thinking of marriage and a family. To state it in this way illustrates the social importance of the problem.

The facts are definitely against industry's hope of ending unemployment in 2 years. Let us suppose that we set about in 1937 to recapture the 1929 level of employment. Because of increased production per man today it would require a 20-percent increase in production over the 1929 rate (equivalent to about a 46-percent increase in the 1936 rate of production) in order to reach that 1929 level of only 1,500,000 unemployed. Can such a feat be accomplished in either 1937 or 1938? Ask your own commonsense or ask any production engineer who knows the state of American factories and mills; he will tell you there is not the slightest chance of pushing 1936 production up 46 percent in 1937 or 1938. The factories and mills cannot "take" it; not only is the equipment inadequate, but the skilled workers necessary are not available. It would require a great boom rate of growth, which would be dangerous, even if we could command it.

I do not mean for an instant to imply that American industry is not making rapid progress and will not give millions more employment. Of course it will; doubtless the pool of unemployed will shrink by 2 million in 1937 and by an equal number in 1938; but that still leaves over 4 million unemployed by 1938. Call 1 million of these "unemployables," if you feel cynical; but, even after this whittling down, 3 million pairs of willing hands must still be disappointed.

No; American industry, with the best of intentions and the wisest of management, cannot hope before 5 years to solve our unemployment problem, and even such a schedule would call for most remarkable energy, cooperation, public spirit, and determination. This is, I think, a little too much to hope for. The likelihood is that we shall make valiant efforts and have moderate success but that the unemployment problem, as in England, will remain for many more years to plague us as a social, educational, and (alas) probably also a political problem. We shall have, I fear, from 2 to 4 million unemployed for possibly 8 years to come.

II

Why is there already a serious shortage of skilled workers, while the 8 million stand idly by? This shortage is stirring false hopes. If all these were skilled workers of precisely the type, number, location, and disposition that modernized industry needs, we could hope to swing into an employment and consumption paradise in perhaps 5 years, counting on good will, good luck, public spirit, and cooperation between Government, capital, and industrial leaders. But, unfortunately, a considerable part of the huge pool of unemployed must be characterized as an almost indigestible mass, the assimilation of which is a job at which even a dictator might quail. While no exact figures are available, we know that a majority is unskilled; of doubtful age, literacy, and work capacity; scattered in location; unadaptable in temperament; and hard to handle. We are prone to view all labor as the labor cartoonists glorify it: a fine, muscular young man, technically trained and an efficient, cheerful producer. Alas, the truth is different, in an appalling number of instances.

Months since, the highly skilled, adaptable, healthy available workers have been winnowed out and put to work. Industry, in 1937, could instantly use almost 1 million more of them. Many even who were highly skilled in 1929 are not so today; skill deteriorates from idleness, like machinery. Many other once skilled workers are now too old, and a normal replacement during these 7 years were not developed. In addition, required skills have changed and shifted; a great deal of retraining even of skilled labor is necessary today.

These quickly sketched facts show what industry is up against in any effort to absorb all unemployment. It is far more wise socially, in my opinion, not to ask industry to take a paternalistic view of employment; not to expect it to assume complete responsibility for our unemployed, even if industry in its pride and jealous possessiveness offers to do so. The paternal-capitalism idea is obsolete. Like the little lady who scrupulously told the iceman that what she wanted from him was ice, so what we want from producers is products—at the lowest possible price and profit ratios, with the least financial manipulation, and at the highest possible wage rates. We should encourage industry, nay, prod it vigorously, to modernize and cut costs, even if it produces some technological unemployment.

The present grave danger is a slowing up of purchasing power due to advancing prices of manufactured goods. Our greatest need is for more producers who apply the Carnegie and Ford principles. If we have low prices and high wages, and alert producers who lose no time putting in new cost-saving methods (but who also lose no time passing on the savings to us), we shall do more for the patient 8 million idle than if we urge industry for sweet charity's sake to make jobs and to assume paternalistic responsibilities. It is not to public advantage to ask industry to operate uneconomically. What we need from business leaders is not more sentimental humanitarianism but (to be quite blunt) more first-class business ability, unmixed with get-rich-quick, speculative, greedy, dishonest, and unethical complexes. We need bold modernization, farsighted planning along the proved lines of low-price techniques.

There is a prevailing idea that inventors and and promoters of new industries will be the saviors of the unemployed. I am skeptical. It takes considerable time to nurse a new industry into becoming a sizable employer. I believe that first-grade, broad-gage businessmen, operating strictly businesslike policies in alreday developed fields which heretofore have not used low-price techniques, will prove to be the greatest employers of more labor; for low prices alone will make possible the wider use of familiar comforts and semiluxuries, which constitute the "wanted" goods to the 75 percent of American consumers still below the decent standard of "American" living.

Nevertheless, it will not be enough to absorb our unemployment rapidly. We will need Government cooperation, on a practical basis, for some years, both as a stimulator of private employment and as an emergency maker of useful public employment. The next greatest helpers will be educators and parents and young people themselves, if they will look realistically at the problem of jobs. We must stop turning out large numbers of second- and third-grade lawyers, doctors, and other professional people, white-collar folk generally, for there is no room for them at a decent income, whereas there is room for highly skilled and specialized workers of many kinds. We will need to drop the silly idea that no father is doing right by John or Nell if he doesn't furnish forth a college education. We have, incredibly, permitted the idea to circulate that you can climb to a superior social level merely by going to college and that somehow there are two classes of people with a social gulf between them—the manual worker and the white-collar worker. This idea has sidetracked millions of fine candidates for skilled-labor jobs. It has even helped make criminals out of young men who feel inferior and unsuccessful if they do manual work.

By its success at subdivision of labor shall we know effective modern civilization. The huge number of unemployed is a sign that we have been failing. We have too many unnecessaries and incompetents; too few of one skill, too many of another; too few here, too many there. Business can't right the situation, unaided. An effective program calls for teamwork by Government, educational institutions, publicists, business, and the unemployed themselves. We shall only raise another political storm if we expect industry to do the job alone, only to have it fail.

[From the American Economic Review, March 1937]

UNEMPLOYMENT RELIEF AND INSURANCE

(By Emerson Ross, Works Progress Administration)

During the last several years the Federal Government has been slowly shaping a program of security for the destitute unemployed. The two principal features of this program are the Social Security Act and the works program. Unemployment made necessary the institution of these complementary activities and the need for them will remain as long as unemployment remains a serious problem.

Today there is a growing conviction in some quarters, however, that business recovery has removed the necessity for a broad Federal program designed to ameliorate suffering arising from unemployment. This viewpoint is based upon the assumption that the depression which began in 1929 created the first and only serious unemployment problem in the history of the United States, that unemployment is not a serious problem today, and that business cycles can be eliminated or controlled in the future. If one grants these premises, the need for unemployment insurance and a Federal works program can indeed be questioned. The thesis maintained here, however, is that unemployment of varying intensity has been a part of our industrial system for decades, that unemployment today is a serious problem, and that it will probably continue to be so for an indefinite period. Since this is the case, the present recovery should not be used as an excuse for dismantling the Federal security program. It should instead be utilized as a breathing spell during which the several complementary parts of an intensive security program can be welded together more adequately.

First, let us examine briefly the situation prior to 1929. Estimates of unemployment by Prof. Paul H. Douglas covering the period from 1897 to 1926 for four major industries show an average of 10 percent unemployed. Other estimates covering certain periods prior to the depression and a number of local censuses of unemployment all point unmistakably to a continuing volume of unemployment. Even in prosperous periods, such as 1923 and 1926, there were more than 1.5 million persons out of work in this country. It is true that exceptions can be taken to these estimates and to the local censuses and unemployment studies. Controversies concerning methods, however, cannot obscure the fact that the problem has been with us year in and year out.

Nevertheless, unemployment was generally regarded during the predepression era as a negligible and transitory nuisance. In the popular mind, unemployment was often considered to be a consequence of personal ineptitude. The view was also entertained that unemployment was at worst a minor matter of short duration. The failure to view the problem of relief and unemployment as a permanent problem created by conditions beyond the control of the individual and locality led to a policy of Federal inaction. The drive for unemployment insurance in the twenties could not surmount the concept that unemployment was negligible, a personal matter, or a problem to be met by local poor relief.

This predepression conception of unemployment was largely instrumental in fashioning the haphazard and wholly inadequate relief policies of that period. Local governments and local private charities were called upon to support those rendered destitute by unemployment or by other causes. The fragmentary data available for the period on expenditures, numbers aided, and so forth, reveal a picture that is a sad commentary on this Nation. In many areas the local poor law machinery was never established, in others it operated with inefficiency and harshness, while in only a few communities did local public relief and private charity provide fairly adequate standards.

It is not generally recognized that in the decades prior to the recent depression relief needs advanced sharply. In 16 major cities public relief expenditures increased from $1.5 million in 1911 to $20 million in 1928, to $28 million in 1930, and to over $64 million in 1931. Despite this increase, adequate standards and coverage were not attained. The local public and private agencies simply did not, and frequently could not, care for the problem.

During the depression years, however, need for Federal aid became generally accepted. In the latter part of 1932, and more extensively during 1933–35, action was taken in the form of extensive relief and works program and the passage of the Social Security Act. The present danger is that under the spell of recovery no further efforts will be made to integrate this program and that vital parts may be scrapped as unnecessary.

American business has recovered rapidly from the low point of the depression. Unemployment has declined substantially, dividend payments have exceeded even the prosperity levels of the latter twenties, and innumerable other business indicators show rapid improvement. It is true that we have cut the unemployment figure of 15 million for the early part of 1933 by at least one-third. It is equally true, however, that the lowest reliable figure places unemployment at about 8.5 million persons for October. This estimate is substantiated by the fact that there are some 6.8 million persons on the active registration files of the U.S. Employment Service. This latter figure does not represent the complete total, for many unemployed do not register at the employment offices. Furthermore, relief data show a large group of unemployed on the relief programs and substantiate the thesis that the unemployment problem is still with us in a serious form.

Obviously, then, unemployment has been for some time and is today, a serious problem. But what of the future? In deciding future Federal policy with reference to the problem of providing security for the unemployed, the following questions are of pressing importance: What will be the extent of unemployment in the immediate future? What volume of unemployment must we be prepared to face in the more distant future? What measures must be adopted to meet this problem?

Unemployment will doubtless remain at a high level during 1937. Estimated unemployment has declined from 11.6 million in January 1936, to almost 8.6 million in October (Nathan). The 8.6 million figure, however, is for October, which is usually the lowest month in the year. For the full year of 1936 the monthly average unemployment will be about 9.8 million. A decline of 25 percent during 1937 would leave 7.3 million unemployed, a decline of 2.5 million. To achieve this, industry in general would have to reemploy 3 million persons, the other half million representing the new annual addition to the labor supply. Average employment in 1934 was almost 2 million over the previous year; in 1935 almost 500,000 over 1934; and in 1936 approximately 2 million over 1935. In none of these 3 recovery years has employment increased by 3 million. Is it possible that industry in general will accomplish this in 1937?

A positive answer, of course, is impossible. Should industrial production in 1937 return to the 1929 levels, reemployment may even exceed 3 million. But even with a return to 1929 levels in 1937, unemployment would range between 7 and 7.5 million workers. A return to 1929 levels of production would mean an increase in industrial production of 18 percent over the average for 1936. Many observers predict no more than a 10-percent rise, while some experts deny that any increase will occur. In any case, we can look forward to a substantial volume of unemployment in 1937.

Even if the optimistic forecast of 7 to 7.5 million unemployed in 1937 be accepted, however, it is obvious that the need for a Federal works program will be nearly as great as it was in 1936. It is often said that an increase in employment should produce a corresponding decline in the number receiving relief. This statement overlooks the fact that no more than half of the unemployed are receiving relief. It overlooks the fact that any increase in employment can come from a number of sources: the experienced unemployed on relief, the experienced unemployed not on relief, the new workers coming on the labor market, and the surplus workers on the farms. Workers on the relief rolls certainly do not receive all the new jobs, nor even most of them. In brief, it is not to be expected that reemployment will absorb an equal number from the relief rolls and the works program. The presence of a large number of unemployed who are not on relief rolls or employed on the works program makes this impossible.

Looking into the more distant future it seems inevitable that a vexing problem of unemployment must be confronted. It is obviously impossible to project unemployment estimates very far into the future. There appears to be little doubt, however, that a sizable problem will exist as long as we have a highly industrialized and rapidly changing economy based on prices and profits.

Factors which lead to unemployment are numerous. By far the most important are those associated with cyclical fluctuations. Any stabilization of these cyclical fluctuations would, of course, remove the peaks and valleys, although much unemployment would undoubtedly remain due to other causes.

Intelligent efforts to stabilize the cyclical variations in the present economic system should obviously be encouraged. There are, however, certain strategic factors in our economy which are tending to make stabilization more and more difficult to attain. Shifts in demand, of course, tend to produce instability. More important, however, is the fact that even minor shifts in the demand for consumers goods produce intensified fluctuations in the derived demand for durable capital goods. The intensification of fluctuations in the derived demand for durable producers goods is of special significance at the present time.

Durable goods industries respond violently to a relatively small increase in consumer demand. Retardation in the rate of increase in demand, however, is inevitable and will lead to an intensified decline in the production of durable goods. It is important to remember that the recovery has proceeded for nearly 4 years; perhaps only 1 or 2 more years of increased demand are possible before the retarding influences operate to throw the durable goods industries into another period of inactivity.

The general principle of intensified fluctuation of demand for durable goods is well borne out by the recent depression. Production and employment declines were greatest in the durable goods industries, less marked in the semidurable, and least evident in the non-durable-goods industries. This is reflected in our relief data for industrial regions which, in a general way, showed a higher percentage of population on relief in those areas specializing in the production of durable goods.

Total employment in the durable goods industries in 1929 averaged 4.5 million. In 1932 the number employed was slightly less than half the 1929 level. On the other hand, nondurable employment declined about one-fourth over the same period.

With growing industrialism, a nation concentrates a relatively larger part of its industrial labor on the production of durable capital goods. With generally rising living standards a relatively larger volume of the consumers goods take the form of durable consumers goods; e.g., radios, automobiles, electric refrigerators, household electrical appliances, etc. This country is producing greater volumes of durable goods each succeeding decade. Given a progressive technology there is reason to believe that this trend toward relatively greater volume of durable goods will continue. But since the durable goods industries are demonstrably more unstable in production and employment than are the non-durable-goods industries, it seems probable that the long-term trend is toward greater instability. The instability in durable goods production is due in part to the dispensable character of the wants they satisfy. The demand for durable consumers goods can be deferred for several years at a time while the existing supply is kept in use. The derived demand for durable producers goods fluctuates widely in response to these relatively small changes in consumers demand. Instability of this sort is an inherent characteristic of the present economic system in the absence of completely regimented consumption.

Evidence likewise shows that the growth of the size of the business unit increases job insecurity. Depression declines in employment are proportionally greater for workers in large firms than for those in smaller establishments.

The instability of employment is also affected by monopoly power and controlled prices. The relative price stability enjoyed by groups of large and highly centralized industries during the depression was achieved by drastic declines in production and consequently in employment. On the other hand, production and employment generally were more stable for those industries in which flexible prices are the rule.

These factors of durability of goods produced, large size of business units, and price inflexibility are mutually reinforcing, and together exert a profound influence on the incidence of unemployment. When, as commonly occurs, the large-scale business unit is engaged in the production of durable goods and is in a position to maintain prices at relatively high levels by decreasing output and employment, the fluctuations in production and employment are enormous. On the other hand, in non-durable-goods industries where the business units are smaller, competition is keen, prices are relatively flexible, and production and employment fluctuate relatively little.

In addition to the factors noted above, technological changes contribute to the volume of unemployment. No simple set of causes can be said to govern technological displacement. It is certain, however, that technological displacement results at least in temporary unemployment; that is, during the period of the readjustment of the supply of labor to the altered demand. Thus, in any period some unemployment from this source will exist. This is true even if technological improvements do not alter the total demand for labor. When, however, in a given period the rate of technological improvement is greater than the growth of output—i.e., when the total demand for labor is reduced—unemployment of more than a temporary character arises. With constant technological improvement as a feature of our changing economic order, some amount of unemployment can be expected at all times.

The extent of technological improvement since the war can be seen by recent studies which indicate that the overall productivity of labor increased by 39 percent from 1920 to 1935. From 1923 to 1929, however, the growth of total production in all industry was faster than the rise of productivity and total employment increased throughout the period. This increase in total employment occurred despite actual declines in the manufacturing, agricultural, and mining industries. Since 1929 productivity has continued to increase. The average increase since 1929 for all lines of economic activity (goods and services combined) is estimated at about 10 percent.

Changes in the available supply of labor must also be considered. Each year approximately half a million workers are being added to the labor supply. This represents a net addition of workers, after allowing for the deaths and retirement of older workers, and these annual additions to the labor supply will continue for some time to come.

There are additional factors which affect the supply of labor. When unemployment and lower incomes are widespread, persons not gainfully employed look for jobs in an effort to add to depleted family incomes, as do also housewives and young persons leaving school prematurely. Older workers do not retire so soon. Other additions to the labor supply consist of persons formerly independent or self-employed. While the magnitude of these additions to the labor supply cannot be definitely stated, there is every evidence that they are not insignificant. None of these factors is taken into consideration in any of the current estimates of unemployment.

In attempting to estimate the level to which production must rise to reduce unemployment to the 1929 average, the two main factors just outlined—changing productivity and changes in the labor supply—are of outstanding importance. To reduce unemployment to the 1929 average of about 1.8 million, production would have to rise to a point where it would absorb both the technologically displaced workers and the additions to the labor supply since 1929. It is estimated that in

1937 this would require a 20-percent increase in total production over 1929, or approximately 45 percent over 1936. Further technological advances and continued annual additions to the labor supply will, of course, necessitate still higher levels of production with each succeeding year if unemployment is to be reduced to the level of 1929.

In summary, unemployment has been, is, and will continue to be perhaps the most pressing of all social and economic problems. Should production in 1937 return to the 1929 level, the unemployed would still number from 7 to 7.5 million persons. For the more distant future, a large volume of unemployment seems very likely, and 4 million unemployed probably represents the minimum to be expected even during prosperity periods. The minimum will, of course, be substantially increased during depression periods. Enlightened public opinion, therefore, must recognize the permanence of this problem and thus make possible a diversified and long-range program to meet the needs of the unemployed.

In considering measures to mitigate the effect of unemployment, it must be recognized that no single type of program can solve the problem. The complexity and diversity of the unemployment problem must be considered. Experience with relief for the past 3 or 4 years shows the unemployment problem to be more varied than is commonly believed. A program designed to meet adequately the needs of the unemployed should include unemployment insurance, employment offices, direct relief, a training program, and a work program.

It has been said by some that unemployment insurance alone will care for most of the unemployment problems. Unquestionably unemployment compensation should be an important part of any program, but it cannot stand alone. Its limitations are indicated by the following factors.

The duration of unemployment for a large segment of those out of work extends well beyond the waiting and benefit period. For instance, the average urban worker on relief in May 1934, had lost his last job at his usual occupation in the winter of 1931–32. Furthermore, many groups such as farmers, rural workers, domestics, and the normally self-employed are not covered by insurance plans. The inexperienced worker and those unemployed at present obviously cannot contribute and are not covered.

The uneven incidence of unemployment would prevent many nominally covered workers from contributing sufficiently to draw benefits for any appreciable period of time. Industrial policies throw many out of work who stand little chance of reemployment. The hiring age policies of many industries make it virtually impossible for many workers over 40 or 45 to get jobs. Furthermore, high employment standards of certain industries exclude not only the older workers but also the inexperienced workers and those who are not able to keep up the high speeds demanded.

In short, unemployment insurance is a first line of defense and can play an important part in a security program. A relief program must be maintained, however, for those workers who exhaust their benefits before obtaining jobs. This part of the program should be primarily a work program, although direct relief is essential to care for those who, for one reason or another, cannot obtain work relief employment.

Finally, a training program should be developed to retrain workers and to provide training for the inexperienced workers.

Under this integrated program, unemployment insurance cares for those who lose their jobs for relatively short periods of time. For those who are unemployed for protracted periods the work and direct relief programs will provide income until they are reabsorbed by industry or by the old-age assistance and insurance systems. Employment offices should be an integral part of a coordinated program.

Only through a clear recognition of the permanence of unemployment, however, can such a diversified program be established on a lasting basis. And only a diversified, well-planned program can take care of the complex of occupational and special groups found among the unemployed.

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UNEMPLOYMENT AND RECOVERY

(By Edwin E. Witte)

The depression is definitely on the wane, and with it is passing the pessimism which led many Americans to lose faith that we would ever get back to the 1929 level. It now seems probable that before long production will pass this previous high mark.

Unemployment, however, still stands at an alarming total. There has been no nationwide count of the unemployed since 1930, but the American Federation of Labor and the National Industrial Conference Board (which seldom agree on anything) both estimate the number of the unemployed at the close of 1936 at between 8 and 9 million. Dr. Harold G Moulton, president of the Brookings Institution, in November estimated the total number of the unemployed at between 5 and 6 million, but in its study, "The Recovery Problem in the United States," published in January, the Brookings Institution gives unemployment estimates which agree remarkably closely with those of the American Federation of Labor and the National Industrial Conference Board. Employment has increased only a little less rapidly than has production, but the total number of persons employed on other than governmental work projects is still more than 4 million less than the average for the year 1929. In addition, the labor force of the country is now more than 4 million greater than in that year.

Despite the many unemployed there are distinct shortages of labor in a considerable number of skilled trades. Complaints about the difficulties of getting craftsmen were made by employers as early as the spring of 1935, especially in the metal trades. These were declared to be wholly false by the Machinists' Union and the American Federation of Labor. According to their version there was no shortage of skilled workmen but only a shortage of nonunion craftsmen, produced by the refusal of many employers to hire union members. Since then complaints about labor shortages have multiplied, coming from all parts of the country and relating to many more skilled trades. Labor leaders still publicly deny that there is any shortage, but many of them privately admit that there is a shortage of really good mechanics in a considerable number of skilled trades.

These shortages are mainly local, although in electric arc welding, toolmaking, die-sinking, molding, patternmaking, and a number of other trades they are rapidly becoming nationwide. There are some mechanics out of work in all trades, but these are mainly poor workmen, and many of them have not actively engaged in their trades for years. In the metal industry the pinch of being unable to get enough skilled mechanics is already slowing up expansion, and in building construction serious shortages are developing in localities where there is a building boom. Even the WPA has experienced considerable difficulty in recent months in getting a sufficient number of skilled men for high-grade construction projects. While millions of unskilled, semiskilled, and white-collar workers are available, it is becoming increasingly difficult to find mechanics good enough for PWA work on the relief lists.

The major explanation for the paradox of shortages of skilled mechanics while there are millions of unemployed workmen is that this country has never trained enough craftsmen for the needs of industry. Until the World War this deficiency was made up by immigration from Europe. During the war and again in the twenties, the need for more skilled mechanics created great interest in apprenticeship and other training programs, but the number of craftsmen actually trained in this country was not sufficiently great to make up for the decrease in immigration. In the census of 1930 only 92,000 persons claimed to be apprentices in skilled trades, as compared with 750,000 workers under 24 years of age in these trades who were neither craftsmen nor apprentices. During the depression nearly all training programs were completely abandoned, and far more mechanics left the country than came in as immigrants.

The depression is now in its eighth year. In this period there has been a large turnover in the national labor supply. Fourteen million new workers, Brookings Institution has estimated, have come into industry, and 10 million experienced workers have dropped out. The new workers constitute more than one-fourth of the present labor supply of the country. The turnover among skilled workers has always been greater than among the unskilled. Many skilled mechanics in normal times become foremen, executives, and employers. In the depression the skilled men have shown themselves far more adaptable and energetic than the mass of the unemployed and, in consequence, many of them have gone into other lines of work. Owing to our failure in the past to train enough craftsmen to offset the reduction in the number of skilled immigrants, a much larger percentage of the skilled mechanics than of the workers generally is in the older age groups. The net result of all these factors is that while the normal replacement rate among all male workers in nonagricultural employments is about 2.8 percent per year, this rate has been at least 5 percent per year among the skilled workers throughout the depression. As the Brookings Institution has summarized the situation:

> A rough estimate indicates that of 9 million male workers in 1930 whose productivity depended upon skill or prolonged training and experience, little more than 7 million are now available for active employment—a loss of nearly 2 million men.

Of these 7 millions many are now only doubtfully to be classified as skilled mechanics. Prolonged unemployment has dulled previously acquired skills and in not a few cases has completely destroyed them. Processes and materials have undergone a considerable change in many branches of the metal trades, as well as in other industries. Many men who were once very good mechanics now are little better than beginners, being handicapped by having to unlearn much that had become automatic to them before the depression. Some new skilled trades have come to the front in this period—for instance, arc welding—for which few workmen have ever been trained.

Until recently neither the Government nor industry was alive to this problem. There are many things that the Government might conceivably have done to avoid the situation which has developed. The CCC might have been set up to train the skilled mechanics which it has now become very apparent are badly needed in industry. Work relief could have been adapted much better than it has been to the skills of the unemployed; more easily, it could have been run to afford a greater incentive to its clients to get back into private employment.

Criticism of what has been done is always easier than actually doing a difficult job. An adequate program for preserving skills and training additional skilled mechanics to offset normal replacement very probably would have involved much greater competition between the governmental work projects and private industry than either the employers or the labor unions would have tolerated. Very surely, it would have meant even greater immediate outlays and would have led to increased resistance from the taxpayers. Industry is not blameless because skilled mechanics have preferred to work for the Government, as the National Industrial Conference Board complains, owing to "industry's inability to compete with Government wage scales and the more continuous work on Government projects." At this time it is far more important to do something about the situation than to debate who is most to blame.

The significant facts in the present situation are these. We are emerging from the depression with a labor force larger by 4 million than we had in 1929. This labor force, however, is not nearly so efficient as it was at that time. Inactivity, loafing, and puttering around have weakened the morale and standards of millions of workers. At one and the same time, we are faced with a prodigious volume of unemployment and a pretty clear limitation to the possible expansion of industry resulting from its inability to get the right kind of labor.

Government, industry, and labor have now all taken cognizance of this situation and are talking a great deal about remedies and doing a little. This is most manifest in the revival of interest in apprenticeship. During each of the years from 1926 to 1930 about 30 articles on apprenticeship were listed in the Industrial Arts Index; in 1932, only 7; in 1933, 5; in 1934, 8; but in 1935, 26, and in 1936, 37. In trade union periodicals the number of articles on this subject has never been so great, but here also there has been a marked revival of interest recently.

The most significant developments in connection with apprenticeship have centered around the Federal Committee on Apprentice Training. This Committee was organized pursuant to an Executive order of the President, dated June 27, 1934. It resulted from the failure of the early NRA codes to make provisions for lower wage rates for apprentices than for journeymen, which led many employers to discharge their few remaining apprentices. To remedy this condition, the President's order permitted lower wage rates for apprentices but only on condition that the apprenticeship indentures satisfied minimum standards to be prescribed by the Secretary of Labor, upon the advice of the Federal Committee on Apprentice Training, established in the same order.

This Committee has functioned ever since, in close conjunction with the Department of Labor, although financed from emergency funds. It is composed of three Federal employees representing, respectively, the Department of Labor, the Office of Education, and the National Youth Administration, and of two people outside the Government representing the American Federation of Labor and the U.S. Chamber of Commerce. It has as its executive secretary, Mr. William F. Patterson, who was long connected with the Wisconsin State supervised system of apprenticeship. Its entire staff consists of only 12 people, and to date it has spent less than $100,000.

It bulks much larger, however, in accomplishments. The Committee has no mandatory authority whatsoever. It cannot compel anyone to do anything about apprenticeship. It has concerned itself principally with arousing interest in apprenticeship and with the development of national standards for apprenticeship indentures. In its promotional work it has succeeded in getting 44 States to organize apprenticeship committees. These are generally attached to the State departments of education or vocational education, but in some States to the departments of labor. Invariably they include representatives of the principal employer and labor organizations. In most States, these committees have not accomplished very much thus far, but in about 10 States they are pushing apprenticeship vigorously and can point to a considerable number of indentures entered into in recent months. In the development of standards, the Federal Committee has succeeded in getting the national organizations of employers and employees, in three trades—plumbing, printing, and diesinking—to agree upon standards to govern all apprenticeship indentures in these trades throughout the country. In a fourth trade—painting—agreed national standards require only formal ratification to become effective, and in a half dozen other skilled trades committees of employers' associations and the labor unions, organized at the suggestion of the Federal Committee, are trying to work out similar national apprenticeship standards. Its procedure is to get the masters and journeymen to organize separate committees, which are not brought together until each has decided upon standards for apprenticeship which it considers fair and practical; and the experience in all cases to date has been that the masters' and journeymen's committees separately arrive at almost identical standards, although originally they imagined themselves far apart. In 1923 a large conference was held in Washington on apprenticeship in the construction industry which adopted resolutions recommending that the national employers and labor organizations in each major division of the industry prepare and agree upon standards for apprenticeship in their respective fields, but nothing was accomplished. Not until the Federal Committee had functioned for some time were national standards for apprenticeship adopted for any trade. The progress recently made is attributable not only to the great need for apprentices, but to the tactful guidance of the Federal Committee and, above all, to its adherence to the fundamental principle that apprenticeship can be soundly established only on a basis acceptable and fair to both employers and employees.

In working away at this program, the Federal Committee has encountered many difficulties. Wide divergence of opinion developed over the relationship which the State should have toward apprenticeship. Most American employers are very suspicious of State regulation and supervision of apprenticeship. They recognize the need for some theoretical instruction to supplement the practical shop training given apprentices. They are quite willing that this theoretical instruction shall be given in the public schools, at the taxpayers' expense, and do not object so very much to requirements that the apprentices must attend school for a specified number of hours per week or per year, provided they do not have to pay for the hours of school attendance. They are also willing that the State promote apprenticeship and give help in solving practical problems when called on for advice. Beyond this, however, most employers have been reluctant to sanction State interference. They have regarded apprenticeship as a matter of private contract between the employer and the employee, with which the State should not interfere. Many school heads have had essentially the same view. They have been mainly interested in getting the apprentices into school for supplemental instruction, leaving the employer in complete control of the shop training.

The contrary policy is the one which has been incorporated in the laws of Wisconsin since 1911. This policy assigns to the State not merely the duty of promoting apprenticeship and the responsibility for providing supplemental school instruction, but makes its approval a condition of every indenture and gives it extensive powers of supervision over the performance of the contract. The underlying idea is that apprenticeship is in the public interest but may be abused and thereby discredited. This danger arises from the fact that apprentices are always paid a wage which is considerably lower than even the common labor rate, particularly during the first part of the period of indenture. The rate of pay is low because apprentices are at the outset worth very little to the employer and get the larger part of their compensation in an all-around training which neither the unskilled nor specialists working on a single machine ever receive. To insure such an all-around training, essential to mastery of a skilled trade, every indenture specifies that the apprentice shall be rotated from machine to machine and fixes both minimum and maximum periods of time to be spent at any process. All this is fair and reasonable provided that the indenture requires training in all essential processes and that its terms are actually observed. The Wisconsin law assumes that it is a responsibility of the State to see that apprenticeship works out as intended and is not used "to exploit the apprentices by merely taking advantage of the lower learners' rates without making a real effort to teach them a trade," as the National Industrial Conference Board has acknowledged has been done in the past by "some unscrupulous employers."

Wisconsin's accomplishments under its apprenticeship law have been considerable although far from sensational. At no time has the industrial commission (which is charged with the administration of this law) had more than three people engaged in apprenticeship promotion and supervision. It has proceeded throughout by the slow method of first working out standards for apprenticeship indentures in the several skilled trades, in conference with the interested employers' organizations and labor unions. It has insisted upon apprenticeships of 4 years in most trades, with daytime supplemental school instruction, to be paid for by the employer at the same rate as time spent in the shop. It has been interested far more in quality than in numbers. When the depression set in, it had 3,600 legally indentured apprentices, most of them in the metal trades. By 1934 this number had decreased to 1,000; but last year nearly 1,000 new apprentices were indentured, which is the largest total for any year since the law was enacted. These totals are not impressive; but relative to its population, Wisconsin is far in the lead among all States in the number of present and graduate apprentices. More clearly indicative of the soundness of the Wisconsin policy and methods is the fact that the apprenticeship program has at all times commanded the unanimous support of all major employers' organizations, as well as of the labor unions. As the National Industrial Conference Board has commented, "While industrial executives tend to resent the participation of the Federal or State government in their affairs, it is significant that employers in Wisconsin speak highly of this law and commend such a system to those of other States."

Ontario and several Australian States have copied the Wisconsin apprenticeship law, but only Oregon has done so in this country, and its law, enacted in 1931, has remained a dead letter. The Federal Committee on Apprentice Training unanimously reached the conclusion that the next step in the development of apprenticeship in this country should be the enactment of laws similar to the Wisconsin statutes in all States. A special advisory committee appointed by the Secretary of Labor has prepared a model apprenticeship bill in accordance with this recommendation, and this bill has been introduced in many of the State legislatures now in session.

Besides the question of State supervision, the matter of the minimum length of apprenticeship has proved a bone of contention. The Federal committee has decided that it cannot recognize any apprenticeship which involves less than 2,000 hours of reasonably continuous employment. Many employers object to such a long training period. They point to the fact that most children do not now enter industry until they have completed the high school course. Particularly in the East, there are many trade schools, and while their graduates are clearly not all-around mechanics, many employers think that with but a short training period, these trade-school graduates can be developed to supply most of the skill really needed in industry. There are some employers and more people not connected with industry who think that the entire idea of apprenticeship is outmoded, and who would, hence, put all their emphasis upon the training of specialists who have but one or two operations to learn.

Organized labor has always opposed all proposals for short training periods which will produce specialists rather than all-round mechanics. Popularly, it is believed that the union restrictions upon the number of apprentices are one of the major obstacles to adequate program for developing skilled labor. This is not true. In the entire history of apprenticeship in Wisconsin, there never has been an employer who has had as many apprentices as the union rules permitted, and it is doubtful whether there is any employer anywhere in the country whose training program is being held back by union restrictions. Union leaders are beginning to understand that the future of many craft unions depends upon the number of young men who will become skilled mechanics in the next decade or thereabouts. A recent survey made by the carpenters' union of Milwaukee revealed an average age among its members of 50 years; and now the union is sponsoring a bill in the legislature to require all learners in the trade to be indentured. Organized labor does not oppose the development of skilled mechanics, but is hostile to training programs which produce narrow specialists, who can be turned out in a short time but are almost helpless when they can no longer get work in their specialty.

That there is still need for all-around, highly skilled mechanics in American industry is recognized by nearly all people actually connected with industry. Some skilled trades have gone out, but new ones have come in and others have greatly expanded. Whether a smaller total number of skilled men is required than formerly is debatable, but there is little question that there are now too few skilled mechanics in many lines, at least for an expansion of industry sufficient to absorb most of the unemployed. Apprenticeship remains the best possibility for the training of the needed supply of skilled labor, which constitutes a bottleneck in our highly mechanized industries. Processes for quickly training specialists will not meet this need, and it is both illusory and unfair for industry to expect that government shall train the needed skilled mechanics at the taxpayers' expense, through the school system or otherwise. Industry must assume the major responsibility, if we are not to lose further ground. But government also has important duties in this respect. Only under its guidance and supervision is there any prospect that friction between employers and labor unions can be avoided, which would be sure to wreck any training program. The government must actively interest itself in developing apprenticeship and must see to it that the terms of indenture are fair to all parties concerned and actually complied with; but the real progress made will depend mainly upon industry.

The revival of apprenticeship, necessary as it is for the training of needed skilled mechanics, will not, however, solve the difficulties which now confront many industries in getting all the labor needed for the expansion which market conditions warrant; much less will it provide employment for the millions who are still unemployed. There is no magic through which we can overnight make up for our many years of neglect of this problem. Almost certainly industry will not be able to expand as much in the next few years as it otherwise might do by reason of our failure in the past to train the all-around mechanics needed for replacement and expansion. It is better late than never, but it will be a hard pull to make up for lost time. The problem must be tackled, but apprenticeship is not all that we need to provide for to improve our labor supply.

The shortages which not exist or are in prospect in many skilled trades probably can be met most quickly by retraining adults skilled in other lines. Garment cutters cannot be converted into machinists, but unemployed watchmakers may be made over into instrument panelmakers (a new skilled trade) within a short period, as was recently demonstrated in a San Diego airplane factory, thanks to the initiative of a wide-awake public employment office superintendent at Los Angeles. There are still considerable numbers of men among the unemployed who were once skilled and who with some training might fill the void which is developing by reason of the fact that the best mechanics all have jobs. Employed in industry are many semiskilled men who can be trained for skilled work in much shorter time than entirely green men.

Such a program is but a temporary makeshift and, if improperly handled, may prove a boomerang. Employers will need to take into account the reactions of the employees. They may well expect trouble if they resort to a dilution and training program to avoid hiring craftsmen who are union members or to beat down union wage rates. Fairness requires that, as far as possible, they should give preference to their own former employees who are still unemployed. They will do well to consult their employees, through their representatives and spokesmen, before deciding upon plans which promise a speedy solution of their difficulties through quick methods of training skilled mechanics. But if they deal frankly and aboveboard with labor, a program of adult training may afford immediate relief, although it will not lessen the need for apprenticeship or some comparable method of initiating a sufficient number of new entrants into industry to maintain an adequate supply of skilled craftsmen in the future. If there is fair dealing, it should not prove impossible to convince labor that the shortage of skilled men limits the opportunities for the reemployment of the great numbers of unskilled or semiskilled workers still out of work. Organized labor must realize that if it takes an unreasonable attitude in this matter, there is real danger of letting down the bars against the immigration of skilled mechanics and of resort to wholesale quick training methods such as were employed, to labor's lasting detriment, during the World War.

There is more, however, to the problem of getting the unemployed back to work than merely increasing the supply of skilled labor. Millions of employables are still unemployed; but employability is a matter of degree. It is becoming increasingly apparent that large numbers of the employables on relief are at present of low employability, and they are not likely to be reabsorbed into private industry unless their efficiency is greatly improved.

Heretofore, we have assumed that the Government's role in relation to the unemployed should mainly be one of providing relief until they are reabsorbed into private industry. In the work relief program we have had some idea that work is necessary to preserve the morale and skills of the unemployed, but it has been assumed that almost any kind of work will do. There has also been an assumption that the reabsorption into industry will be automatic as conditions improve. WPA regulations, indeed, have been such that work relief clients cannot afford to accept any private job unless it is almost certain to last at least several months. All WPA workers are registered as applicants for private employment at the public employment offices, but in many offices their names are kept in a separate file, which is consulted only when orders cannot be filled from the nonrelief applicants. Only 200,000 persons on relief were placed in private employment last year through the public employment offices, and not much larger numbers were recalled by their former employers or found work through their own efforts. Employers tend to shun the workers on relief, and there is an understandable, but unfortunate, reluctance on the part of these men to seek or take private employment.

Now, we are confronted with the alternative that we must either be prepared to keep several million workers on direct or work relief permanently, or make much more of an effort than we have heretofore to get these workers reabsorbed into private industry. The latter is the announced policy of the administration, although it recognizes that work relief will have to be continued on a considerable scale for some time to come.

More will have to be done to make this policy really effective than the President's appeal to industry to do its part in reabsorbing the unemployed and particularly the older workers. The WPA must be changed in such a way that the work relief clients will be much more eager and willing to go into private employment. The best way of doing so is not to reduce the WPA wage rates, but to limit the length of time that any one may be employed on WPA projects.

The time also has come for regarding the entire problem as one more of rehabilitation than of relief. This has long been recognized in Europe. For over a decade, the British Ministry of Labor has been carrying out training and transfer programs in conjunction with the employment exchanges, to rescue some of the most promising of the people in danger of becoming chronically unemployed. Last year it had 12 training centers, in which 12,000 carefully selected adults were given 6 months' training for skilled occupations in which there are shortages, and 98 percent of them were placed in these industries at "improvers'" (helpers') wages and accepted by the unions, not as all-around mechanics, but as having the equivalent of about 3 years of a 4-year apprenticeship term. For unemployed juveniles in England, there are locally conducted prevocational training courses, financially aided by the National Government; and there are transfer allowances for selected workers in depressed areas who have been trained for available work in more prosperous regions. In Germany, many more of the unemployed have been trained and retrained in programs conducted by the employment offices; but—in contrast with the practice in England—without regard to the interests or wishes of the employed workers. In correlating vocational guidance for young people with available employment opportunities, however, the German employment offices have done such apparently good work that we may well find in their methods much that should be applied in this country.

There has been some thought and a little experimentation in the United States with similar devices to adapt our available labor supply better to the needs of industry—which is the same thing as increasing the opportunities for employment of many who now seem doomed to the uncertainties of work relief. The U.S. Employment Service has undertaken an elaborate occupational research survey, its objective being to facilitate the transfer of people skilled in one line of work to another in which there are better prospects. To date, this survey has produced only elaborate, detailed descriptions of occupations, but these are to be followed by practical guides grouping occupations by related skills. In a number of localities, training for occupations (generally of a semiskilled nature) has been instituted in the schools or by the WPA. The best planning for rehabilitation services has been done within this organization, but it has not yet got beyond the stage of small-scale experimentation.

The fundamental reason why we have made so little progress in this respect is that we have regarded the unemployment problem as being but a temporary one, which would eventually solve itself without more attention to the individual unemployed man than to keep him in health and not too discontented. This attitude must now give way to a policy of genuine rehabilitation, if we are not to have a large body of workers permanently excluded from industry and supported mainly at the expense of the employed. There is no way in which we can avoid all the consequences of our past mistakes and no way of cheaply and quickly meeting the problem. But it is high time that we made a real beginning. This means a complete reorientation in our entire program for reducing the numbers of employable men still out of work, or at work on emergency Government projects, as our industrial recovery proceeds.

[Address before the special session for business executives, Department of Economics and Business Administration, Westminster College, New Wilmington, Pa., November 19, 1937.—From "Potentials of the American Economy," Harvard University Press.]

SAFEGUARDS AGAINST DEPRESSIONS: AN ANALYSIS OF DEPRESSION CURES

(By Sumner H. Slichter)

Between the summer of 1936 and the summer of 1937 the cost of living advanced by 4 percent. The income of industrial workers, including factory, railroad, and mining employees, advanced 12 percent, and the cash income of farmers by 12 percent. Industrial production increased 5 percent. Productions of consumers' good did not increase at all. Despite the fact that consumer purchasing power was outrunning production, the country was plunged into a depression. A similar experience preceded the recession in 1923–24.

These experiences remind us that a pronounced recession in business may occur even when consumer purchasing power is growing faster than industrial production. The reason is plain. The immediate determinant of the state of business, as every businessman knows, is the outlook for profits. When the outlook for profits improves, business enterprises expand their expenditures, employment and production increase, and the standard of living of the entire community rises. When the outlook for profits is uncertain or dark, enterprises postpone commitments and reduce expenditures, the volume of employment and production falls, and the standard of living drops. The state of consumer purchasing power is only one of many variables which affect the outlook for profits. That is why profit prospects may grow less favorable even while consumer purchasing power is growing.

Although consumer purchasing power is only one of the many variables affecting the outlook for profits, the prospect for profits is the dominant factor in determining consumer purchasing power. It is easy to see why this is true. The incomes of four out of five families are nothing but the expenditures of business enterprises. Hence, before a drop in consumer incomes can occur, business enterprises must decide to spend less, and before an increase in consumer incomes can occur, business enterprises must decide to spend more. Consequently, when one examines the monthly figures on industrial production and retail sales, one finds retail sales lagging from 3 to 6 months behind industrial production. In periods of depression industrial production always starts upward while retail sales are still going downward, and in periods of boom industrial production starts downward while retail sales are rising.

This brief analysis indicates the nature of the problem of fighting depressions. Reduced to its simplest terms, it is a problem of inducing an increase in business spending. Since the volume of business spending depends upon the outlook for profits, the essential thing is to improve this outlook. The increase in business spending must not be confined to items on current account. It must include a sufficient volume of new investment to absorb that part of the individual savings of the community which the Government does not absorb, for obviously if individuals and enterprises save more than they invest, the turnover of bank deposits will continue to drop and so will the demand for goods.

II

Before I discuss the role of the Government in dealing with depressions, permit me to comment briefly on the responsibilities of private enterprise. The extraordinary difficulties of the last depression compelled us to look so much to the Government for help that we have tended to overlook the role of private resourcefulness and initiative in producing revival. Recovery from depression, as I have pointed out, can come about only by an expansion of business spending. Every businessman knows, however, that profitable changes in methods, equipment, and product have to be discovered. They are the result of a systematic search for ways of cutting costs and increasing sales. This indicates the all-important contribution that private enterprise must make to fight depressions. Its job is to discover new profitable opportunities for increasing business spending. The Government can help by assisting in various ways the removal of maladjustments which stand in the way of private business. No Government aid, however, can take the place of efficient, resourceful, ingenious, and courageous management struggling to find new ways of making money. Private enterprise needs to keep itself prepared at all times to fight depression (1) by keeping a large backlog of industrial research work in process so that projects can be brought to completion within a relatively short time and (2) by accumulating sufficient reserves in good times to maintain research work in bad times.

Four principal Government policies have been advocated for fighting depressions. They are:

(1) Relief to debtors.

(2) Encouraging reductions in the price level by deflationary policies.

(3) Encouraging increases in the price level by inflationary policies.

(4) Attempting to maintain or increase consumer purchasing power by various methods.

Let me comment briefly upon each of these policies.

(1) In its mildest form, assistance to debtors has involved maintaining easy money conditions which facilitate either the funding or the renewal of short-term debts and the refunding of long-term debts at lower rates of interest. The funding of short-term debts is undoubtedly helpful, because it releases for expenditure on commodities income which might otherwise have to be devoted to the repayment of indebtedness. Likewise, the refunding of long-term indebtedness is helpful because it improves the credit position of enterprises and permits them to pursue more liberal budget policies. Whether the renewal of short-term loans, which is an inevitable accompaniment of easy credit, is helpful or harmful is a disputed question. Enterprises naturally wish to avoid forced sales, but distress selling which reduces

prices below replacement cost is one way of creating a price structure in which businessmen have confidence and which, therefore, serves as a safe foundation for forward planning and advance commitments.

In case of extraordinarily severe depressions, such as in 1929–33, aid to debtors may take the form of Government loans. The proper limits of this policy are not entirely clear. The strongest case is in favor of loans to banks because nothing in so deflationary as banking difficulties. There is also a strong case for Government loans to homeowners and farmowners. The alternative social unrest would have been in itself seriously detrimental to business. Furthermore, this aid usually represented a scaling down of the debtor's fixed charges and, therefore, both improved his credit condition and increased his ability to purchase commodities or to pay off other debts. Of doubtful wisdom was the aid extended in the last depression to the railroads. What was needed was prompt reorganizations which would have reduced fixed charges and improved the buying power and credit of the roads. Government aid seems to have delayed or prevented the needed reorganizations and, therefore, to have reduced the buying power of the roads.

(2) Italy and pre-Nazi Germany furnish the principal recent instances of attempting to fight depression by forcing down prices. Germany and Italy decreed price cuts largely for the purpose of meeting competition of the depreciated British pound.

What is the theoretical argument in favor of general price reductions? If the general price level is lowered, and if the bank deposits of the country are not reduced, and if the deposits are spent at the same rate, it is obvious that expenditures of the country will buy more goods than they would buy at the higher price level. There are three principal weaknesses to this argument. One is that the drop in prices may bring about a drop in demand deposits by making it possible for many enterprises to get along with smaller bank loans. A second is that the very drop in prices may reduce the turnover of bank deposits by creating lack of confidence in the price structure and thereby inducing postponement of commitments. A third weakness arises from maladjustments in the price structure, and a proportionate drop in all prices does nothing to eliminate these maladjustments.

Much seems to depend upon how price reductions occur. The success of small cuts may do harm rather than good by arousing the expectations of further cuts and thus inducing postponement of commitments. On the other hand, a quick and drastic cut in prices of goods to a level substantially below production costs may convince buyers that prevailing prices are too low to last and thus effectively move inventories into consumption and pave the way for a rise in prices and expansion in production. It is illuminating to contrast the decline in prices following 1929 with the decline following 1920. After 1929, prices moved downward gradually by small cuts, which had the effect of inducing postponement of commitments. In 1920, the drop in prices was far more precipitous. Inventories were dumped on the market so much below replacement costs that businessmen considered it safe to buy and an upturn in business soon followed.

Is it helpful in periods of depression to reduce the price of labor? From the standpoint of labor income, it does not seem to make much difference whether the price of labor is reduced or not. At any rate, comparison of the period 1920–21, when the price of factory labor was reduced about 20 percent, with the period 1929–31, when the price of factory labor was scarcely reduced at all, shows that payrolls held up slightly better in relation to the volume of industrial production in the former period than in the latter. One of the principal arguments against the reduction of wages is that such reductions are likely to arouse the expectations of cuts in finished products, thus inducing postponement of commitments. The country which employed wage cuts most successfully during the last depression is Australia, where wage reductions were coupled with an inflationary policy which tended to support prices at the time that wages were being cut. At the present moment a general spiral of wage cuts would not facilitate recovery, but reductions in a few specific instances (especially in the building trades) would be desirable because they would increase the number of investment opportunities.

Instead of a general reduction in prices, what seems to be needed is a change in price relationships. Since a depression is a time when businessmen are finding difficulty in discovering enough new investment opportunities, what is particularly needed is a drop in the cost of investment—that is, a drop in the prices of industrial equipment, building materials, construction labor, and interest rates. The ideal development would seem to be a cut in the costs of investment combined with a temporary and drastic reduction in the prices of finished goods sufficient to clean out inventories and to produce a subsequent rise in the prices of finished goods. When the costs of investment have been reduced and the prices of raw materials and finished goods are so much below replacement costs that they begin to rise, the stage is set for recovery.

(3) One of the most widely advocated cures of depression during recent years has been an increase in the general price level. The expectation of rising prices does, of course, encourage forward planning and a certain amount of business expansion. Nevertheless, a proportionate increase in all prices would not remove the maladjustments in the price structure that limit the volume of investment. However, an expectation that prices are going to rise relative to costs of production will produce an expansion of investment. This is what most persons who talk loosely about a rise in the price level have in mind. They are not thinking about a rise in interest rates or in the price of labor, but rather of a rise in commodity prices.

The proposal that commodity prices be raised encounters the problem of ways and means. Price increases do little good unless they are brought about by increases in demand. This is why price increases achieved by controlling the supply or conditions of production are likely to be ineffective. Here we see one of the principal difficulties with the NRA. Many economists have advocated easy credit as a device for raising the demand for goods. Experience indicates that lower interest rates are useful in a limited way but that their effect is small, particularly in severe depression. During the last depression currency depreciation was effective in halting the decline or raising the price level of many commodities. The early currency depreciations were not planned—they occurred despite the struggles of governments to prevent them. Only late in the depression was this device voluntarily employed. It is doubtful whether it will be employed in the future.

The most promising device for raising prices or halting their decline seems to be Government spending—or more strictly speaking, deficit financing. It requires some courage at the present moment to advocate this device in the United States. After increasing the Government debt by approximately $20 billion during the last 4 years, we find ourselves with another depression on our hands as soon as we eliminate the deficit. Nevertheless, I hope to convince you that this device, properly employed, is one of the most useful ways of combating depressions and, indeed, an essential method of offsetting drops in business spending.

(4) Many persons have advocated combating depression by increasing consumer purchasing power. In itself an increase in consumer purchasing power is obviously useful. It helps to eliminate excessive stocks, to reduce short-term indebtedness, to correct maladjustments in the price structure, and to increase profitable investment opportunities. The crucial question is whether the methods employed to increase consumer purchasing power do more harm than good.

The Roosevelt administration has endeavored to increase consumer purchasing power by (1) raising the price of labor, and (2) by Government spending. I pointed out above that a drop in commodity prices substantially below costs may induce firmness in the prices of goods and hence some forward buying on the basis of this firmness. By analogy it might be argued that an advance in wages, which are the principal element in most costs, would creat firmness in commodity prices (1) by convincing buyers that the prices of good are bound to rise in adjustment to higher costs, and (2) if the demand for labor is inelastic, by increasing the demand for consumers' goods. Experience with the NRA in the summer of 1933 indicates that to a very limited degree this conclusion is true. Nevertheless, a rise in costs relative to commodity prices is not equivalent to a drop in commodity prices relative to costs. There are two principal reasons why it is not. One reason springs from the fact that in the midst of depression business enterprises are particularly concerned with preserving a highly liquid position. A drop in commodity prices permits an enterprise to increase its inventories with only a small reduction in its cash. An artificially induced rise in wages, on the other hand, threatens the cash position of enterprises, because no concern dares count on promptly getting back the increased amounts which it spends on wages. Hence, although the advance in wages may induce some forward buying of commodities, this effect is likely to be offset by other cuts in expenditures which each enterprise makes for the purpose of protecting its cash position. The second reason why the rise in wages is less stimulating than the drop in commodity prices is because it tends to raise the cost of new plants and equipment relative to old plants and equipment. The new and the old are constantly in competition with one another—new equipment, new plants, new methods, new products are competing with old equipment, old plants, old methods, and old products. Whether business is active or depressed depends upon whether the new is winning out rapidly or slowly in competition with the old. A depression is a time when the new is winning out slowly in competition with the old, and a boom is a time when the new is winning out rapidly in competition with the old. A general rise in wages raises the cost of the new and hence limits the increase in profitable opportunities for investment. Consequently, although a rise in wages may induce a limited increase in consumer incomes, this increase does not carry over very effectively into an increase in the volume of investment. This seems to have been the experience of the United States during the last few years.

Another way of increasing consumer purchasing power is by Government spending, or deficit financing. This method has the advantage of increasing consumer purchasing power without directly raising production costs. Our recent experience with deficit financing make us vividly aware of the difficulties and dangers which it involves. If deficit financing is not accompanied by encouragement to business enterprise, it has little effect upon the volume of business spending, but simply causes idle bank deposits to pile up in the possession of business enterprises. This happened to a considerable extent in 1933 and 1935. During this period Government spending was producing rapid increases in bank deposits, but the turnover of bank deposits was steadily dropping until it reached a low in August 1935.

If the policy of deficit financing is pursued too long in a period of recovery and if it is not tapered off gradually as business improves, it is likely to produce an inflationary price rise and inventory speculation which in itself produces recession. Experience since 1935 indicates vividly the political difficulties in tapering off Government spending. The transition from Government-stimulated to privately stimulated recovery has been shown to be difficult. In order to facilitate the transition, the Government must be willing to give proper encouragement to private enterprise. Unfortunately, the stimulating effect of a large deficit may conceal the real business situation and so blind the Government to the need for encouraging private enterprise. Indeed, misled by the stimulating effect of deficit financing, the Government may easily impose a dangerous burden of taxes and social reform measures upon business and thus counteract the effects of deficit financing.

Finally, if too large a part of Government expenditures are spent on public works, it tends to obstruct recovery by raising the prices of building materials and labor. In order that private investment may be encouraged, these prices need to be kept low relative to other prices. Certainly, Government expenditures on public works during the last several years have retarded private building by raising the prices of materials and labor. Government spending should be used to support the demand for consumers goods by being used for straight relief or for work-relief projects which consume only small quantities of materials or else the Government should predicate its willingness to buy building materials or building labor upon the willingness of sellers to make concessions in prices.

Despite our recent unsatisfactory experience with deficit financing, the case in favor of it is very strong. Ours is a society in which business spending is bound to drop whenever the future looks less favorable. When business spending drops, consumer purchasing power drops also because most consumers' incomes are nothing but the expenditures of business enterprises. But when consumer purchasing power drops, business becomes still less profitable, and thus the drop in business spending feeds on itself. Plainly, a society so vulnerable to business recession as ours needs to protect itself against the drop in business spending. This is simply commonsense because the people of the country are not going to tolerate a substantial drop in their standard of living whenever the prospects for profit become darker. Consequently, the Government must provide consumers a source of income which does not depend upon business spending.

There is another way to put the case for deficit financing. In depression, investment opportunities shrink, and so expenditures on new plant and equipment shrinks. Individual savings, however, do not shrink in proportion to the shrinkage in investment. This means that savers hold uninvested funds which in turn means that the velocity of circulation and, therefore, the total volume of spending drop. Obviously a way is needed to absorb the uninvested savings of individuals when the volume of investment drops. Deficit financing is such a device. It is a means by which a part of the uninvested savings of the community are converted into consumer purchasing power whenever the volume of investment drops. This very conversion of saving into consumer purchasing power tends to increase the number of investment opportunities and the volume of investment.

III

The discouraging experience of the last several years has led many persons who believe in deficit financing as a sound economic theory to abandon faith in it as a practical political policy. Much can be done, however, to reduce the political dangers associated with deficit financing. For example, Federal expenditures on relief and public works can easily be handled so as to reduce the pressure from cities upon the Federal Treasury. Nevertheless, it is true that deficits in *future depressions should be kept much smaller than* in the past depression, because when the deficit is large enough to arouse fears of inflations it encourages short-term planning but discourages long-term planning. Furthermore, it would be wise to provide deficit financing not entirely through the general budget, but in large measure through the medium of unemployment reserves.

Unemployment reserves have three important superiorities over a deficit in the general budget. In the first place, unemployment compensation increases automatically as business falls off and helps, therefore, automatically to halt the drop in consumer purchasing power. In the second place, and equally important, unemployment-compensation payments decrease automatically as business picks up. Thus the problem of reducing the deficit as business revives is removed from the discretion of Congress. In the third place, no part of unemployment compensation is spent for capital goods. It all goes to unemployed labor and, therefore, tends to support the prices of consumer goods—exactly the group of prices that should be supported in periods of depression.

Our present unemployment-compensation acts are far from adequate. This is to be expected because they are new. They provide payment in most instances for only 15 or 16 weeks of unemployment. As soon as contributions can be properly increased, the duration of benefits should be raised to at least 26 weeks. This may be done by the device of workmen's contributions. It has been the history of all forms of social insurance, such as group insurance and private pension schemes, that in the beginning they were noncontributory. As they became better understood and more widely desired by workmen, they became contributory. The same evolution may be expected in the case of unemployment compensation.

Many persons have questioned whether unemployment compensation can be of much help in fighting depression. This depends, of course, upon whether reasonably adequate reserves are accumulated. It was found in the last depression that a deficit of two or three billion a year gave great support to business. Unemployment reserves probably cannot be paid on this scale, but even considerably smaller payments would be of considerable help. The sales of bonds from the unemployment reserve fund would supply a much-needed outlet for individual savings that otherwise would be hoarded. Thus they would permit the consumption of one part of the community to be financed by the savings of another part at a time when savings are too large relative to investment opportunities and when the decline in consumer incomes is itself reducing the number of investment opportunities. It is not ordinarily realized that we had a system of unemployment reserves in the depression of 1920–21. It took the form of Liberty bonds purchased by workers during the war which they sold to support themselves when they became unemployed. The remarkable stability of retail trade during the depression of 1920–21 must be attributed in large measure to those sales of Liberty bonds—which was, of course, equivalent to a system of unemployment reserves.

IV

My analysis indicates that business activity is bound to drop whenever the prospects for profits become less favorable and that these downturns cannot be entirely avoided. We speak of the stock market being in a strong technical position or a weak technical position. Suppose we apply this concept to business. If business is in a strong technical position when a downturn occurs, the recession will not be prolonged and perhaps it will not be severe. Since recessions cannot be entirely avoided, the most important thing of all is to prevent their being prolonged or severe by keeping business at all times in a strong technical position.

When is business in a strong technical position? On the whole it was in a strong technical position in 1920 because the war had created large capital shortages and because consumers, instead of being in debt, held large quantities of Government bonds. Consequently, the resulting depression, although severe, was very short. Keeping business in a strong technical position involves the following:

(1) Keeping the short-term indebtedness within limits because short-term debts involve mortgaging future incomes and reducing future consumer power. Concretely, this means exercising a strict control over installment buying by insisting upon substantial down-payments and by keeping the term of payment short.

(2) Keeping inventories within reasonable limits by avoiding speculation in commodities. This involves carefully controlled credit policies. Even more important, it involves the avoidance of production bottlenecks in industry by foreseeing increases in demand.

(3) Building up large unemployment reserves to protect consumer purchasing power from being drastically reduced by drops in the volume of business spending.

(4) Finally, and most important of all, maintaining at all times industrial research on a large scale for the purpose of creating new opportunities for profitable investment by improving equipment and products and by developing new products. A large reserve of investment opportunities in the process of being developed is a necessary foundation to a strong technical position of business.

[From "Common Sense," September 1938]

THE PARADOX OF THE WPA

DEPRESSION BORN, IT REPAIRS THE RAVAGES OF PROSPERITY—AND NOBODY PROFITS EXCEPT THE AMERICAN PEOPLE

(BY DEAN R. BRIMHALL)

Have you a friend who says: "Why don't the unemployed do something useful?" If he won't shut up, show him some of the following figures and then tell him to look around—in his own community. Mr. Brimhall, an official in the Employment Division of the WPA, points out that the popular conception of the WPA as an agency devoted to correcting the ravages of the depression is inaccurate. On the contrary, the unemployed are now actually making up for the ravages of "prosperity."

The United States is a better place to look at since the Federal works program started to clean it up. It is not only better looking than it was in 1932—it is better looking than it was in 1929. It wasn't just the depression that left the country looking like a dumpheap—it was the old system of not doing anything, no matter how much it needed to be done, until some private individual could make money out of it. And that system dates a long way back into prosperity days.

It is customary for us to think of the New Deal's recovery program as an attempt—whether successful or unsuccessful, according to the point of view, to repair the ravages of the depression. This is only partly true. A large part of the recovery program consists in an attempt to stop the slide into chaos that was blithely going on in the crazy days of so-called prosperity.

The "looks" of America—its visible apparatus of community welfare, its roads, parks, schools and so on—are only part of the whole process of civilization. And I wish to indicate briefly that the neglect and consequent disintegration of the whole process of civilization in America did not date from 1929, but began far earlier and was going from bad to worse under cover of our so-called prosperity.

BEFORE THE NEW DEAL DEALT

In 1935 we had about one-sixth of the population of the country on relief. How many of them got there because of the depression? We have now set up a social security program which provides—so far inadequately—for people whose economic helplessness would not be cured by the return of the "prosperity" of 1928. These include first of all the needy blind, the needy crippled, the needy aged, and the needy mothers with dependent children requiring their care at home. The depression did not first create helpless and indigent old age—prosperity saw that tragic group growing into its vast proportions, and looked away, muttering its business incantations, and did nothing. There was no profit for anybody in providing for old age, so it wasn't done. So that large group can be chalked up to the debit side of prosperity.

Our present workmen's compensation legislation dates roughly from World War days. Many of our large numbers of blind and crippled men were blinded and crippled back in their youthful prime when private industry was still unhampered by any responsibility for its frightful accident rate. They are the relics of those glad, mad prosperity days when we just didn't bother about such things.

All over the country there are stranded towns and regions—industrially dead, because their industries have moved away, leaving there a population with no work, too poor even to move. Now they are on relief. But when were these towns deserted by business and left to die in lingering misery? Back in the riproaring days of prosperity.

In some recent years a large proportion of our farm families—more than a million of them—were on relief. The great middle western drought came during the depression, but it was not caused by the depression—it was caused by prosperity carelessness, prosperity greed, prosperity neglect of our natural resources.

Altogether, about half of the people taken care of by relief today are unemployables. How did they get to be unemployable? Chronic malnutrition and the diseases of poverty account for a vast amount of unemployability, and these scourges were not first unloosed by the depression—they were already rampant in prosperity days. It "paid" us to put our money into Wall Street, but it wouldn't have paid us to protect the Nation's health, so we let things slide.

THE WPA'S RECORD TO DATE

That is the background. Coming into the foreground, let us ask a question about certain WPA jobs of improvement and repair on public buildings. The WPA has done such work on over 30,000 buildings in the last 2 years, besides constructing over 11,000 new public buildings. The question is: Does this work make up merely for depression neglect, or for prosperity neglect too? There are no general figures to quote. But anybody who has read the descriptions of work-relief projects will recall phrases like these:

> A rural school built in 1882 has been entirely rebuilt, inside and out, from basement to flagstaff, and is entirely modern.
>
> An abandoned school building has been steel reinforced and thoroughly reconditioned for use.
>
> A two-story brick high school was built, replacing one condemned as unfit by the board of education.
>
> The old municipal hospital was a potential deathtrap, due to fire hazards.
>
> The library was a revolutionary landmark and had fallen into disrepair.
>
> "The bats," said a circuit judge, "have taken this courthouse, and the court will not sit here until something is done about it." It has now been thoroughly repaired, and the judge can preside in dignity and comfort.
>
> Long-hoped-for—this is a familiar phrase in the description of road projects.
>
> A smelly garbage dump, the resort of the city's flies, rats and buzzards, has been replaced by a handsome tile-roofed incinerator.

It will no longer be necessary to dump sewage into open creeks from which cattle drink.

Five acres of swamp were turned into a playground.

These examples—they are all actual work-relief projects, not imaginary ones—could be multiplied indefinitely. And these disreputable, insanitary conditions of neglect date from prosperity days.

PRIVATE INITIATIVE—AND THE CONTRACTORS

Private initiative—which boasts that it is the source from which all our blessings flow—seems to have overlooked a lot of opportunities to increase the public welfare back in prosperity days. Our contractors—who are now so indignantly complaining about WPA "competition"—where were they then? They had no WPA to take the bread and jam out of their mouths then; and why didn't all that new construction and improvement get done by them? Why did it have to wait for the CWA and the ERA and the WPA? The magic of private initiative seems not to have worked in a lot of cases all over the country. The profit incentive didn't get done a vast amount of public work that desperately needed doing.

One moment more for the contractors. They are not being neglected by Uncle Sam and our States, counties, and localities, though you would think so to hear their cries of anguish. Take a look at the figures.

The volume of contract public works construction—all public works, Federal, State, and local, exclusive of WPA work—approximately maintained the predepression level during the 2 years 1936 and 1937 when WPA was in full operation.

The average for the 2 years is about $2,200 million, as compared with the predepression annual average of $2,500 million.

The volume of contract public work this year is running about the same as in 1936 and 1937.

On the other hand, private construction work during 1936 and 1937 was running at the rate of only three-eighths of the predepression level of $8 billion.

In brief, the contractors get practically as much public work to do now as they did in prosperity days. It isn't Uncle Sam or our States or towns that are letting them down. If they are getting no ice cream on their pie, it is for the lack of private building jobs. We need millions of houses, and private initiative is fighting desperately to keep the Federal Government from building those houses, even on a contract basis. It wants to build those houses itself. And why doesn't it go ahead and build them? Because the houses most needed are for the low-income population who can't pay enough rent to make such housing a profitable venture for private initiative. Private initiative can't build the millions of houses we need, and so far it has prevented the Federal Government from building many of them. And that is why the poor contractor sits weeping into his ginger ale. It is his own buddies who have let him down, the private initiators who don't initiate—and won't let the Federal Government initiate—housing for the masses.

It was a funny sort of prosperity we had back in those predepression days. It didn't mean much to the 3 million unemployed in February

1929, when prosperity was at its height. It didn't mean much to the stranded communities left to perish while business went happily off to some place where wages were lower. It didn't mean much to a lot of towns that couldn't raise or borrow money to put up new school buildings or lay a new sewer.

But what private initiative was powerless to do in the heyday of prosperity, the Federal work program began to do in the depth of the depression. That work began under the CWA, continued under the State ERA's, and is going on full tilt under the WPA.

ROADS, PARKS, WHARVES, SCHOOLS, CLOTHES

In just the last 2 years, under the WPA, the "unemployed" have built 30,000 miles of new farm-to-market roads, repaired 116,000 miles more. Statistics such as these don't tell much. What one needs is the imaginative power to conjure up the innumerable farming communities to which a 10- or 15-mile stretch of mudholes has been the only way to get to town, and multiply that all over 48 States.

Every road in the country has been in need of new bridges and culverts for safety. The WPA has built 19,000 bridges and 183,000 culverts, and repaired more than you could shake a stick at.

New roads look like a raw gash in the landscape. The WPA has landscaped—beautified—fixed up—call it whatever you like—nearly 40,000 miles of roadside, so that now it is a pleasure to ride along it.

Prosperity left us with a lot of old streetcar and railroad tracks scarring our streets. The WPA has torn up over 400 miles of them and smoothed the places out. In addition, along our waterfront the WPA has built 81 new docks, wharves and piers and improved 128 others.

How many new school buildings have been constructed by the WPA? Nearly 1,600. How many old school buildings repaired? Over 16,000. New hospital buildings constructed—99. Reconditioned, over 900. New courthouses, townhalls and other administrative buildings? Over 500. Old ones fixed up, over 2,000. Count in the firehouses, municipal garages, warehouses, gymnasiums, armories, and other city, county, and State buildings, and the grand national total comes to over 42,000 improved, repaired, or constructed.

And over 6,000 dangerous and unsightly old structures have been torn down—often to make room for playgrounds or new municipal housing.

Add in also over a thousand new playgrounds. Hundreds of new swimming pools. Fifteen hundred new wading pools for small children. Three thousand new public tennis courts. A hundred new public golf courses.

Nearly 800 new parks with an acreage of 22,000 acres. Old parks everywhere made more fit for public use by toilet facilities, drinking fountains, roads, parking space, picnic fireplaces, drainage, and landscaping.

These are some of the things that can be seen with the naked eye. Underground there are nearly 4,000 miles of new water mains, and over 5,000 miles of new storm and sanitary sewers.

Never mind the figures—they are impressive enough—on landing fields, runways, reservoirs and storage tanks, municipal utilities of all kinds, small dams, levees, drainage and riprap work on streams and rivers. It has all been waiting to be done for a long time. It took the "unemployed" to do it.

CONSERVING THE LAND—AND THE PEOPLE

In prosperity days there never was enough time or private profit incentive to get around to conservation work. Now we are beginning to get around to it. Millions of new trees have been planted on thousands of acres by the WPA. Over a thousand miles of firebreaks have been cut in our public forests. Millions of acres of land have been cleared of noxious plants. Insect pests have been eradicated from millions of acres more. Over 800 bird and game sancturaies have been established.

People too poor to buy clothes for themselves and their children are found nowadays to a great extent decently dressed, in garments made by WPA sewing rooms. The 108 million articles of clothing for men and women, boys and girls and babies, made in the last 2 years, have gone to people on relief, people in public hospitals, orphanages and other institutions, and to refugees from our great annual floods.

To them, too, have gone the 24 million pounds of food canned and preserved on WPA projects. Also there are projects for teaching housewives how to can and preserve for themselves. WPA food also goes to WPA school lunches.

Education does not educate hungry children. The WPA, in addition to establishing 2,000 branch and 6,000 traveling librarians, has been feeding hungry children in thousands of schools. Over 128 million nourishing hot lunches have been served to schoolchildren in the last 2 years.

ART, DRAMA, MUSIC, LECTURES, RECREATION

In the late lamented prosperity era there was a contemptuous phrase for most of the United States—it was called the hinterland, a polite way of saying "the backwoods." The hinterland was supposed to be ignorant, unkempt, uncivilized. The hinterland had no music, art or drama. But who cared? It was only the hinterland.

It turns out, however, that the hinterland enjoys music, now that it has been given a chance to have some to enjoy. Over 3 million people a month attend the concerts and other performances of WPA orchestras and other musical units. Over a million people a month attend Federal theater productions, and some of these are out in the hinterland. The hinterland even enjoys art. The new WPA civic art centers, many of them far out in the hinterland, have an aggregate monthly attendance of over 2,500,000 people. WPA music and art classes, many of them scattered all over the hinterland, have a monthly attendance of nearly 200,000—young people, desperately poor, but eager for beauty.

The hinterland wants more education than it has been getting. Grownup people flock to the WPA's adult education classes. Young people want vocational training. Mothers want to learn more about homemaking. Illiterates want to learn how to read and write. Workers want to learn how to conduct meetings, citizens want to learn about public affairs, youths at work want to take correspondence courses.

Well over a million people, young and old, were enrolled in all branches of the WPA education program last fall.

One branch of this program provides demonstration nursery schools in towns that are waking up to modern educational methods. There are over 1,400 WPA nursery schools. Some day all our children will go to nursery schools. This is just a beginning.

Our communities are beginning to realize that public recreation centers need leaders and instructors. The WPA operates over 9,000 public recreational centers and assists in over 6,000 other centers. Last summer, in a sample week, over 11 million hours were spent by young people in recreational activities led by WPA recreation workers. Our towns and counties are beginning to take these recreation projects and workers over.

All this, and much more, has come out of the stupendous paradox of the depression. We had plenty of work that needed to be done—and millions of unemployed people with every kind of training and ability. It was no good telling the unemployed to go out and sell apples to one another. We put the unemployed to work for the public benefit. And now we can do what we need to have done, even if nobody profits from it except the American people.

[From the American Economic Review, June 1940]

UNEMPLOYMENT IN THE UNITER STATES, 1930–40

(BY PAUL WEBBINK, SOCIAL SCIENCE RESEARCH COUNCIL)

The 10 years just past have been marked by the most extensive and prolonged unemployment ever experienced in the United States. The active interest of American economists and commentators in the phenomenon of unemployment has in the last few years come to seem so natural and inevitable that it is easily forgotten that earlier American economic writing had traditionally dismissed unemployment as a minor and evanescent incident in the functioning of the Nation's economy. Only a little more than two decades ago Frederick C. Mills found after reviewing the existing literature that "intensive study of the problem of unemployment is a very recent development in the United States." Though, he said, "the spectacle of large numbers of able-bodied men out of work during periods of industrial inactivity" had caused "brief flurries of excitement, characterized by generalizations of hobby-ridden individuals as to the causes of the phenomenon, and by appeals for immediate remedies essentially of a superficial character," nothing even approaching a scientific analysis had yet followed.[1]

Passing over for the moment the question to what extent this stricture might be said to remain valid in large part today, there will be little disagreement with the opinion that his observation was still very much to the point a decade ago. In spite of a few major individual contributions with respect to labor turnover, employment regularization, and certain other special problems, American economists during most of the 1920's by and large seemed to continue to share the view current a generation before when Richard T. Ely had considered it necessary to justify the inclusion in his "*Outlines of Economics*" of a chapter on "Expenditures for the Poor and the Unfortunate" by saying that while "there are those who deny that the problems here discussed are economic problems," it was his view that "if these things in their cost to society, in their loss to productivity and their demoralization of organized industry, do not affect the problem of man in his relation to wealth, what thing do?"[2]

Though a spurt of active concern with the causes of unemployment and with ameliorative measures developed during the social and economic ferment of 1909–15 and revived briefly in the immediate postwar years, it was short lived. The unexpected ease with which demobilization and postwar readjustment took place in the United States, and the prosperity of the years which followed, pretty generally submerged further efforts toward the "scientific analysis" which Mills had found wanting in 1917. The work of the individual economists who persevered in studying unemployment lacked the sustained interest of their colleagues and any continuing mechanism for integrating the results of their research; neither public nor private agencies pushed much further, for instance, the suggestions advanced by the 1921 President's Conference on Unemployement.

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[1] Frederick C. Mills, "Contemporary Theories of Unemployment and Unemployment Relief" (New York: Columbia University, 1917), Studies in History, Economics, and Public Law, LXXIX, 1, 118.

[2] Richard T. Ely, "*Outlines of Economics*" (New York; Chautauqua-Century Press, 1893), p. 334.

A reversal of the general disinterest appeared possible when, during the aftermath of the temporary upswing of unemployment in the winter of 1927–28, the initiative of a small group of economists brought about the passage of a resolution authorizing a Senate committee to investigate "the causes of unemployment and the relation to its relief" of a variety of possible governmental or private measures. The report which in March 1929 resulted from this investigation explained that difficulty had been encountered in holding the attention of the members of the committee, because of the conflicting committee meetings with which Senators had been beset, but expressed the hope that the investigation had nevertheless "contributed to an aroused interest in the subject," and that the survey made would represent "another advance" in the effort to "solve" the problem of unemployment.[3] A rather striking résumé of the state of thought about unemployment just prior to the decade of the thirties is afforded by the "suggestions and recommendations" which the committee presented:

> 1. Private industry should recognize the responsibility it has to stabilize employment within the industry. The Government should encourage this effort in every way, through sponsoring national conferences, through publishing information concerning the experience had by industries in this work, and through watching every opportunity to keep the thought of stability uppermost in the minds of employers.
>
> 2. Insurance plans against unemployment should be confined to the industry itself as much as possible. There is no necessity and no place for Federal interference in such efforts at this time. If any public insurance scheme is considered, it should be left to the State legislatures to study that problem.
>
> 3. The States and municipalities should be responsible for building efficient unemployment exchanges. The Government should be responsible for coordinating the work of the States so as to give a national understanding of any condition which may rise and so as to be able to assist in any national functioning of the unemployment exchanges.
>
> 4. The existing U. S. Employment Service should be reorganized, and every employee should be placed under civil service.
>
> 5. Efforts should be made to provide an efficient system for obtaining statistics of unemployment. The first step should be taken by the Bureau of the Census in 1930, when the bureau should ascertain how many were unemployed as of a certain date and how many were not seeking employment and yet were unemployed as of that date.
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> 6. The Government should adopt legislation without delay which would provide a system of planning public works so that they would form a reserve against unemployment in times of depression. States and municipalities and other public agencies should do likewise.
>
> 7. Further consideration might well be given to two questions, the effect had on unemployment by industrial developments such as consolidation of capital, and the necessity and advisability of providing either through private industry, through the States, or through the Federal Government, a system of old-age pensions.[4]

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[3] U.S. Congress, 70th, 2d sess., *"Causes of Unemployment"* (S. Rept. No. 2072, 1929, presented by James Couzens, chairman, Committee on Education and Labor), p. vi.

[4] *Ibid.*, p. xv.

Modest, and even archaic, as these suggestions may seem today, they appeared very far in advance of popular and governmental thinking in 1929. The enactment of even a statistics-gathering Federal public works "planning board" was put off for 2 years, and legislation for a thorough overhauling of the employment services was not enacted until 1933.

That unemployment, both in its current manifestations and as a possible major problem in the future, no doubt well merited study was being admitted by a growing number of economists and officials by the end of the twenties. This view, however, competed with the optimistic belief held strongly by the general public and by a goodly number of economists as well, that a permanent plateau of prosperity had been attained and that the possibility of another serious depression hardly required earnest consideration. Studies of unemployment, or serious examination of possible ameliorative measures in the event of an unemployment crisis, were therefore easily put off until a more leisurely future, to permit concentration on the immediately pressing issues of farm relief, tariff revision, and the functioning of the securities markets.

The Probable Volume of Unemployment During the Thirties

Within a few months after the stock market collapse of October 1929, unemployment had been catapulted from its status of a vague worry to be considered some future day into the position of one of the country's foremost preoccupations. Unemployment increased steadily, with only a few temporary setbacks, from the fall of 1929 to the spring of 1933. Even a cursory reference to the several existing estimates of unemployment will amply show the rapidity with which unemployment established itself as an economic factor of the first order of importance.[5]

For March 1930, the estimates range from nearly 3,250,000 to move than 4 million. A year later these had doubled to between 7,500,000 and almost 8 million. By March 1932, a further increase of roughly 50 percent had occurred, bringing the estimates to between 11,250,000 and nearly 12,500,000. Then came the peak early in 1933. By March 1933, accordling to the independent estimates of Dr. Woytinsky, nonagricultural employment had fallen more than 8,050,000 over the spring of 1930, while the supply of persons who might normally be considered to be seekers of gainful work had during the same time increased by 1,200,000. Adding to these an estimated 1,850,000 "additional" workers brought on the labor market through the unemployment of usual breadwinners, and the approximately 3,200,000 persons whom Woytinsky estimates as already unemployed in April 1930, a total of 14,300,000 is reached. Other estimates for March 1933 range from Robert Nathan's 13,577,000 to the National Industrial Conference Board's 14,586,000, the American Federation of Labor's 15,-

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[5] The 5 series of estimates most commonly used, those of the National Industrial Conference Board, Robert Nathan, the American Federation of Labor, the Congress of Industrial Organizations, and the Alexander Hamilton Institute, are appraised critically by Russell A. Nixon and Paul A. Samuelson in "Estimates of Unemployment in the United States," Review of Economics Statistics, August 1940, pp. 101–111, and the limiting factors underlying all current unemployment estimates are pointed out by Aryness Joy in "Statistics of Employment and Unemployment," Report of Sixth Annual Research Conference on Economics and Statistics of the Cowles Commission for Research in Economics (University of Chicago, 1940), pp. 84–87.

389,000, and more than 16 million on the part of the Congress of Industrial Organizations.

The spring and summer months of 1933 brought the "NRA boom" and a sudden fall of 3 or 4 million in the number of unemployed. This still left unemployment at a level of 10 or 11 million but a gradual diminution occurred during the next 4 years, and by September 1936, the volume of unemployment was set by various estimators at between 5,378,000 and 8,145,000. A sharp increase resulted from the renewed depression of the winter 1937–38, reaching, according to Woytinsky, a total somewhat over 9 million in March 1938 or, according to others, a level of 10 or 11 million. That a decided drop in unemployment has taken place during the subsequent 2½ years is recognized by all of the estimates; the magnitude of the drop, as the concluding pages of this paper point out, is still a controversial issue.

It would require an immoderate rashness to try at this point to identify the specific factors which resulted in the fact that unemployment was throughout the decade a problem of major importance. In a broad sense the factors responsible for the tremendous volue of unemployment were the factors responsible for the depression as a whole. It is hardly feasible, however—either now or in the future—to obtain agreement upon the proper weights to each of the forces which contributed to the sum total, including the condition of the world markets, the influence of internal financial and industrial policies, the role of governmental measures, technological changes, shifts in the composition of the population, and changes in standards of consumption and in the desire of individuals to enter the labor market or to increase their participation in it. The impact of most or all of these influences has, however, no doubt already been examined at length in the preceding papers of this year's program of the association. The pages which follow are directed, therefore, toward an examination of certain broad aspects of the supposedly ameliorative measures evolved in the course of the thirties and upon related questions concerning the overall significance and extent of unemployment.

THE RANGE OF THE AMELIORATIVE MEASURES

No unanimity of opinion is ever likely to develop concerning the range of the measures which can properly be classified as "ameliorative" or "relief" in character. The first difficulty is that as concern over the volume of unemployment increased, the claim that a particular proposal would "relieve" the unemployed, or by reducing unemployment would shrink the need for relief, became a stock polemical device of Government officials, of political leaders, and of those economists and commentators who became impressed or enamored with the anticipated efficacy of particular "remedies." For example, income tax reduction proposals and the drive for a general Federal sales tax in the early thirties were described by their proponents as "relief" measures. It would be difficult to find a major governmental policy enacted or urged from 1929 on, whether with respect to agriculture, financial institutions, public utility regulation, or taxation, whose advocates did not rest their case at least partially upon the contention that a beneficial reaction upon the extent of unemployment would follow. In the latter half of the thirties the relief-of-unemployment argument thus became the most potent single weapon of the large-spending school of economists and governmental advisers. An examination of the policies for the amelioration of unemployment in these terms would obviously require a review of the entire course of governmental policy and of business activity throughout the decade.

Much more immediately related to the unemployment problem are the measures relating to the length of the workweek. Work sharing and job rotations were the "remedies" given primary emphasis in the first years of the depression by Federal officials and by many industrial leaders. It is certain that work spreading for a while eased the impact of unemployment upon the employees of many establishments and of some communities generally. However, save in limited exceptional circumstances the constantly augmented slackening of industrial activity and the passage of time had by 1932 largely worn out the effectiveness of work spreading upon an individual enterprise or single community basis.

A renewal of the drive to spread work by shortening hours came, this time under direct governmental stimulus, with the establishment of the NRA in 1933. What part the NRA in its early phases played in producing the estimated drop of 4 million in the number of the unemployed during the second and third quarters of 1933 is again something on which, as on so many other points in the record of unemployment during the thirties, general agreement is hardly likely. It is probably universally admitted that the enthusiasm with which the initiation of the NRA program was greeted did produce a definite improvement in the country's prevailing mood. Beyond that, however, it must be remembered that "the NRA did not * * * represent a clear and unambiguous program having definite consequences moving in a single direction" and that neither "is it possible with assurance to isolate the effects of the NRA from those of the many other forces present during its existence."[6] Few would by now insist upon a higher estimate than that of the Brookings Institution which attributes a possible reemployment of from 1,750,000 to 2 million individuals to the operation of the NRA's code hour limitations, and even this is dependent upon individual opinions concerning the NRA's overall effect upon the course of production.

The first 2 years of experience with the Fair Labor Standards Act of 1938 do not yet provide sufficient evidence to gage its effect upon employment and unemployment. The act's first major objective, that of establishing a 40-hour week, became operative only 2 months ago, and the general 40-cent minimum hourly wage will not go into effect until 1945. In normal times the next couple of years would doubtlessly have demonstrated whether the act is likely to cause an increasingly sharp segregation between a group of steadily employed efficient workers and a more or less permanently displaced group, or whether, subject to some transitory unemployment due to the disappearance of marginal business establishments, it may instead result in shifting workers into industries offering both greater productiveness and a greater individual return. Whether these effects will be clearly discernible during the period of defense preparation seems doubtful.

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[6] Leverett S. Lyon, Victor Abramson & Associates, "Government and Economic Life" (The Brookings Institution, 1940), vol. II, pp. 1059–1060.

The Public Works Programs

When one turns from the complexities to the measures affecting the volume of unemployment indirectly to the programs intended specifically to ameliorate the individual effects of unemployment, one distinction at first seems entirely clear. Postponing for the time being consideration of the unemployment compensation program, most discussions of unemployment policy assume a clear-cut line between the "unemployment relief" measures of the thirties and the contemporaneous public works programs. Usually, furthermore, the various early State and local emergency roadbuilding or other construction programs are disregarded and "public works programs" are taken to comprehend the augmented Federal construction appropriations of 1930–32, the self-liquidating loan provisions of the 1932 Emergency Relief and Construction Act, the $3,300 million works appropriation of the 1933 National Industrial Recovery Act, and the various and sundry construction appropriations or Presidential allocations of subsequent years. Often, indeed, the contrast is cast in the simple terms of a distinction between the activities of the PWA and those of the FERA–CWA–WPA sequence of organizations.

The problem of definition is actually much more complex. It may, for instance, be presumed that the distinction is essentially one between heavy construction on the one hand, and a potpourri of light construction work relief activities and direct relief programs on the other. This overlooks the fact, however, that WPA projects have included many buildings and other construction operations of a most substantial character. When one examines a document such as the Public Works Administration's brochure of last year, "America Builds: The Record of PWA," there are included with other construction achievements items amounting to more than a quarter of a billion dollars for the building of naval and Coast Guard vessels, aircraft building, machine tools for Navy yards, pest and disease control, and a variety of other matters which hardly come within the traditional concept of "public works" activities. An attempt to trace precisely the record of public works activities undertaken on account of the depression is practically hopeless for two reasons: the sums appropriated were often in large part reallocated to purposes considered socially useful but only vaguely or not at all related to construction, and Government officials have since the very first year of the depression succumbed almost without exception to the temptation to lump together all construction expenditures, whether emergency or "regular" in character, in order to magnify the size of the ostensible effort to alleviate unemployment. Even were a distinction to be attempted, however, its meaningfulness would be limited; no one can say with assurance, for instance, what sums would or would not have been spent for railroad grade-crossing elimination in the middle thirties if the depression had not occurred.

It seems more sensible, therefore, to evaluate the depression public works activities in the light of the usually accepted statistical series measuring the total value of private and public construction.[7] The first striking fact is that total public construction which, including certain maintenance expenditures, amounted to about $3,250 million in both 1928 and 1929, rose above this level within the past decade in only 3 years—1930, 1931, and 1939—and never by more than $400 million.

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[7] The statistical data used in this section have been derived from the table "Estimated Value of Private and Public Construction, Including New Construction, Maintenance, and Work-Relief Construction," in Survey of Current Business, September 1940, p. 14.

State and local public works expenditures responded to appeals for intensified activity by increasing in 1930 to a peak of $3,288 million, representing 90 percent of all Government works expenditures in that year and an increase of $330 million over 1929. The State-local expenditures thereafter, however, declined steadily, though not as dramatically as the shrinkage in private construction from over $10 billion in 1929 to about $2 billion in 1933. Public construction had by 1933 fallen, if separate and clear-cut work relief programs are excluded, to a little less than $1,750 million. The decline would have been still greater but for the slow increase in Federal construction which by 1933 reached a total of $665 million as against $275 million in 1929.

During the remainder of the decade public construction—still excluding the separate work relief programs—was gradually augmented as the result of a slow growth in State-local financing of public works and a much more rapid spurt in Federal financing, until in 1939—and also in 1940—the predepression level was exceeded by about $100 million. Meantime, private construction began its recovery and in 1939 reached a total of $5,311 million, somewhat over half of the 1929 level. During the thirties Federal expenditures for construction were about $6 billion larger than if the Federal Government had limited itself to its predepression construction activities. Large as this sum is, it was more than counterbalanced by the shrinkage in the State-local financing of public works which, taking the decade as a whole, totaled something like $11 billion less than would have been the case had State and local governments been in a position to continue construction at the 1928 or 1929 rate. The startling nature of these figures is offset in part by the fact that from 1932 on the Federal outlays represented in considerable part merely a substitution of Federal credit for State or local borrowing.

The figures which have just been cited are not intended as a means of decrying the actual achievements under the public works programs. Substantial public improvements were effected. Large numbers of wage earners—the reported total rose at one time in 1934 to nearly 650,000 in direct employment upon Federal public works activities—were afforded employment at a time when certainly many of them would otherwise have been unemployed. Had public construction dwindled as rapidly and as far as private building, the critical situation of the years 1932 and 1933 would doubtlessly have been greatly intensified, and in subsequent years public works no doubt contributed in some measure to the process of recovery. Taking the decade as a whole it may well be argued, however, that the pronouncements and excitement at various stages of the depression over the public works programs were rather greater than the realities involved. The net effect of the programs is of course larger if the "multiplier" theory is accepted, but, after all, the process of "multiplication" of employment and industrial activity presumably must have been occurring at similar rates in the predepression years.

There continues to be ample opportunity for speculation about the extent to which the public works actually undertaken may have served as a brake upon the depression or a spur to recovery, about the effects which might have been produced had the timing or the volume of expenditures been altered, and about the extent to which greater or lesser results might have been obtained if at certain times effort had been concentrated more largely upon attempts to apply direct stimulation to the private building industry. It remains to be seen whether the lender role gradually assumed by the Federal Government as a means of stimulating State and local works projects will remain an important influence in the handling of State-local borrowing or whether this will gradually pass back into ordinary bond market channels. It would seem that the most that at the present time can be said with assurance about the net effect of the public works policies of the thirties is that they appear to have enabled a number of concerns to keep alive their operating organizations, and that the Federal Government's public works wage policies not only maintained at fixed levels the wage rates of the considerable number of workers engaged directly upon federally financed projects but may also to some appreciable degree have held up the level of private wage rates in corresponding occupations.

THE UNEMPLOYMENT RELIEF PROGRAMS

Definition of the scope of the measures which may be considered to have been undertaken for the sake of unemployment relief involves many hazy areas even after the public works programs have been excluded.[8] It is assumed that there will be general agreement that "relief" can properly be taken to refer to the granting of money, or goods and services, to individuals on the basis of some sort of determination of the fact and the degree of their actual need for assistance. On the other hand, "relief" is also usually taken to connote the various and sundry unemployment programs to which the word "relief" became attached during the thirties. There is a sizable gap between these two uses of the term. The 1933–34 civil works program is usually and properly included among the unemployment relief programs even though possibly half of the CWA employees were persons who had registered at an employment office as being unemployed but who had not previously been on the relief rolls. If "relief" is taken to comprehend the entire activities of the Work Project Administration, it automatically includes the 3 or 4 percent of WPA employees not taken from relief rolls but employed because of the need for supervisory or specially skilled workers to facilitate project operations. It is ordinarily presumed that in the administration of relief all cases which remain on the rolls will be reinvestigated periodically, but the WPA program was undertaken with the avowed intention of minimizing the application of the means test once a worker initially had been certified as in need of relief. Reinvestigation of the actual degree of need of WPA workers were therefore undertaken only at infrequent and irregular intervals. Similar anomalies might be cited at considerable length. The most important of them, however, arises from the lack of any line of demarcation, or of at best only a very fuzzy and blurred line, between relief to the unemployed and relief to all manner of other types of need for assistance or supplementary income.

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[8] It will presumably be self-evident, in view of the subject matter of this paper, that the discussion is not intended to include consideration of the "public assistance" programs (old-age assistance, aid to dependent children, and aid to the blind), for which Federal aid became available through the 1935 Social Security Act. As a rough basis for comparison with the sums of money involved under the other programs discussed it may be interesting to note that the Federal and State costs of the three assistance programs in 1939 totaled in the neighborhood of $600 million.

The reasons for the lack of any clearly defined distinction between unemployment relief and relief generally can be made clear only by a hasty review of the evolution of relief policy during the first half of the thirties. The 1929 depression found the United States with the most archaic and least effective unemployment relief arrangements of any of the world's great industrial countries. Striking innovations had been made over several decades in the private development of social work, in the provision of special types of public assistance for particular categories of dependents (such as the insane, military veterans, victims of industrial accidents, the aged, and dependent children), and in the establishment of local or State departments of public welfare. Practically nothing had been done to provide orderly, certain, and equitable relief for able-bodied workers who became impoverished during periods of unemployment.

Relief to the unemployed was legally the responsibility and prerogatives of local (city, town, or county) officials, except in the scattered communities in which local policy or local governmental inaction had shifted part or all of the responsibility to private social work agencies. Somewhat advanced policies and relatively high standards existed in a part of the communities in which the relief responsibility had thus been shifted or in which modernized public welfare departments had replaced antiquated forms of poor-relief organizations. Elsewhere the unemployed in 1929 had as their principal recourse the uncertain, capricious, and often woefully meager assistance dispensed by the local poor law officers. These officers for the most part were guided by their parochial interpretations of State poor laws embodying the spirit, and often the specific provisions of relief policies fashioned to fit the conditions of colonial or frontier communities. Two centuries earlier, the proper governmental unit for relief purposes appeared, logically enough at that time, to be the unit smallest in size and closest to the citizen. Except for special provisions in some States to aid persons without a legal residence in a specific subunit, administrative and financial responsibility with respect to the relief of the unemployed remained with the same local entities in 1929.

Direct Federal participation in the unemployment problem had hardly ever been suggested with any seriousness. Generally, the widespread popular assumption that in critical periods of unemployment unusual relief needs would be taken care of by temporary or permanent private agencies complicated efforts to overcome the organizational and psychological unpreparedness of the country for an emergency such as the one which followed 1929.

The throngs of relief applicants who appeared by the second and third winters of the depression strained the existing facilities to or beyond the breaking point. It was only rarely that local governments were equipped with officials or agencies able to cope effectively with the destitution produced by mass unemployment, and the very fact of their prompt recognition of the emergency tended to strain their financial resources all the more. It was much the same with the private agencies in the communities in which they had absorbed the responsibility for unemployment relief. Abandonment of the previously established channels for the distribution of aid began in the fall and winter of 1930. By the summer of 1932 the older public and private organizations, especially in the more populous areas, had with relatively few exceptions been subjected to outright displacement by emergency agencies or to a drastic overhauling and redefinition, ending with State intervention and increasing restrictions upon local autonomy.

These organizational shifts were in part merely a repetition of the experience of earlier depressions. Usually, however, the end of a depression had been followed by the return of relief functions to predepression officials and agencies. This time the intensity and duration of the depression shook not merely the relief organizations of the largest cities but overturned partially or completely the poor law and private agency structure of most smaller communities and of entire States. Inability to command sufficient financial resources was by no means the only factor. Administrative weaknesses and incompetence were often equally important. Many of the statutory poor law authorities were hardly seriously taken into account when communities became conscious of the need of aggressive action; often, furthermore, the statutory poor relief was held in such low esteem that its use to aid the depression unemployed was utterly unacceptable to public opinion.

Completely localized relief made its last stand in 1930–31, in the second winter of the depression. When in community after community the local poor relief machinery was unable to provide aid at any justifiable level of adequacy or even to cope administratively with the crowds of applicants, energy tended at first to be directed toward stopgaps or toward elaborate circumventions such as the odd-job campaigns, apple-selling drives, and a variety of other attempts to find employment substitutes which would lessen the pressure upon the relief agencies. Few communities settled down to the development of effective and continuous relief organizations. Almost every force playing upon public opinion operated in the opposite direction. It was still being maintained widely that the depression was almost over. Relief was therefore commonly subordinated to the stimulation of confidence. The more desperately driven cities improvised special emergency organizations to take over the whole relief burden or some arbitrarily determined portion. The emergency basis of action involved organization and financing for the shortest possible duration, and a failure to define policies or to settle organizational problems for more than a few months at a time became one of the depression's principal characteristics.

The third depression winter in 1931–32 saw the development of an irresistible demand for new sources of both financial and administrative support. Relief allowances and even the acceptance of relief applications had been curtailed to the point at which further curtailment was beyond the bounds of ingenuity. A large proportion of the local governments were utterly unable to overcome the double impact of the extraordinary costs involved in trying to cope with the relief problem and of the effects of the depression upon regular sources of local finance. State and Federal officials gradually recognized also that the vastness and complexity of the problem were outrunning the capacity for management of a very substantial number of communities. In the fall of 1931 the States of New York and New Jersey created State financed and statewide emergency relief administrations, thereby breaking with the traditional local autonomy in matters of unemployment relief. Several of the other principal industrial States with tax or credit resources which could be tapped at the State level soon followed the patterns set by New York and New Jersey. The fiscal resources of most of these, like those of the local governments, were not, however, sufficiently elastic and by the spring of 1932 State officials were joining in a demand for help from the Federal Government with the local officials from States whose governments for one reason or another had not acted. Federal aid, on a modest scale, finally became available in July 1932, through the appropriation in the Emergency Relief and Construction Act of 300 millions for "advances" to the States by the Reconstruction Finance Corporation for furnishing relief and work relief "to needy and distressed people and in relieving the hardship resulting from unemployment."[9] Shortly before this first appropriation was exhausted, in May 1933, the Federal Emergency Relief Administration was established and a further 500 millions appropriated.

It has been estimated that the expenditures more or less exclusively devoted to unemployment relief may very roughly have amounted to about $80 million in 1929, perhaps $130 million in 1930, about $300 million in 1931, and in the neighborhood of $600 million—including around $80 million from the Reconstruction Finance Corporation in addition to State and local expenditures—in 1932.[10] In 1933 the combined Federal, State, and local costs of "general relief" and ancillary FERA programs, of the CWA, and of the Civilian Conservation Corps, but excluding all public works whether "emergency" or otherwise, rose to $1,200 million, and in 1934 to over $2,500 millions. The total remained about the same in 1935 in spite of the initiation of the WPA program in the fall and the gradual expansion of rural rehabilitation of rural resettlement expenditures. An all-time high of more than $3,250 million followed, however, in 1936 when the WPA program came into full operation and alone accounted for the expenditure of $2,200 million. The next year brought an appreciable reduction and the total amounted to about $2,750 million. Comparable calendar year figures for 1938 and 1939 are not yet obtainable but the aggregate for 1938 seems to have been about $2,500 million, and for 1939 close to $3 billion. Data thus far available suggest that in the year of 1940 the expenditures which have here been considered as more or less of an unemployment relief character may well turn out to have fallen below $2 billion for the first time since 1933.

For the 5-year span of 1933–37 covered by a detailed and published analysis[11] the expenditures by the Federal, State, and local governments for "general" relief, work programs primarily designed to employ relief labor (but excluding so far as possible both "emergency" and "regular" public works),[12] and for rehabilitation, etc., programs launched in 1934 and 1935 to aid rural families, amount to a total of at least $12,500 million. When the estimates given above for 1938 and 1939, and the even more tentative estimates for the years 1930, 1931, and 1932, are added in, it seems that the aggregate for the 10 years 1930–39 can hardly be less than at least 19 billion. Even this total does not include the $1,107 million of benfits under the State unemployment compensation laws and the $15 million of railroad unemployment insurance benefits which had been paid out by the end of the first half of 1940. Neither have there been included the costs of the various "surplus commodity" programs in operation since 1933; these, however, were undertaken essentially as a device for easing the agricultural surplus situation and came to play a significant role in the relief problem only after the termination of Federal grants-in-aid threw the general relief burden back upon State and local finances, especially after the initiation of the food stamp plan in 1939.

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[9] Earlier in 1932 Government-owned wheat and cotton, acquired under the Federal farm relief program, had been turned over to the American Red Cross for distribution among needy persons at its discretion.

[10] Henry J. Bitterman, "State and Federal Grants-in-Aid" (New York, 1938), pp. 153–154.

[11] Cf. Dorothy Fahs Beck, "Problems in the Compilation of Data on Total Relief and Work Program Expenditures," Journal of the American Statistical Association, June 1938, pp. 353–362.

THE LACK OF CLARITY IN RELIEF POLICY

The persistence through the forepart of the thirties of the hope for an early end of the depression profoundly affected the entire course of unemployment policy. Given the assumption that the depression was nearing its end, it followed that there seemed good reason to assume that the importance of the unemployment problem would also disappear soon, and, in that case, it seemed reasonable to assume that relief expenditures would likewise drop off to some more manageable level. In the face of these assumptions it was difficult to make a persuasive case for a careful planning and development of policies, organizational structures, and administrative practices. The immediate task of somehow getting through the month was in any case always so pressing that even the most forward looking of those responsible for relief policies and financing had little time, energy, or inclination to look ahead further than the exigencies of the immediate "emergency" seemed to demand.

It happened unfortunately that all three of the hopeful assumptions long continued to be unfounded. The depression waxed and waned from time to time but its impacts had not disappeared even by the end of the decade. The progress of economic recovery did not produce a seemingly commensurate decline in unemployment, partly because the optimists had failed to make sufficient allowance for changes in the age distribution of the population, agricultural displacement, technological changes, and other current factors, partly perhaps because the accredited unemployment estimates did not prove sufficiently sensitive to the changes that were occurring. The assumption that relief expenditures would shrink rapidly overlooked the fact that the types of destitution which were being ameliorated by the "unemployment" relief programs were far from coterminous with the unemployment problem if this is considered in the traditionally accepted sense of the term.

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[12] It should perhaps be noted again that here, as elsewhere in this paper, there have also been excluded expenditures for old-age assistance, aid to dependent children, and aid to the blind except to the extent to which cases appropriately falling within these groups happened to be absorbed within the "general" relief load in the years prior to the initiation of the social security program.

The hope that all three assumptions would prove to be sound nevertheless did not die out. It persisted especially among the Federal and State officials whose primary concern with general recovery measures, with social reforms, or with administrative management, was constantly being complicated and thwarted by the complex, costly, and vexatious problem of relief. The notion of settling down to relief programs calculated for 2 or 3 years ahead, or even for 12 months, was therefore most unpalatable. Many State relief appropriations were made for 6, even for 3-month periods, and until near the end of the decade the Federal appropriations, though nominally for a full year, were customarily enacted with full knowledge that one or more deficiency appropriations would be required within the year unless recovery took on miraculous proportions. The sums federally appropriated were allotted among the States, month by month, from the summer of 1932 through the end of the FERA period, and sometimes—when Federal appropriations ran out or when the Treasury in turn tried to apply the FERA's theory that monthly grants were conducive to economy—for shorter intervals. Only rarely did the States have certain foreknowledge of the actual amounts which they were likely to receive. The supposition that this would make it certain that no more would be spent within a given time period than might actually be essential, was only partially responsible. Federal officials themselves did not know for more than a few months ahead what the nature of the overall relief policies, and the amounts of funds to be available, would be. If the Federal officials were reluctant or unable to determine policy far beyond the immediate moment, it is hardly reasonable to expect that State and local officials would be able to do better. The amazing thing is that State and local relief operations did nevertheless maintain a substantial appearance of stability and consistency.

The repeated shifts in the objectives and content of the Federal relief program complicated and contributed to the lack of advance fiscal commitments. High government officials, Federal and State alike, shared the common public reaction of "not liking relief." Hence there was a continuous search for more attractive alternatives to be substituted for whatever happened to be the status quo, in the hope of either short-run or long-run economy in relief expenditures, or as a means of attaining what were considered to be more desirable or more extensive social advantages than the simple giving of relief to persons found eligible for relief. Disregarding the infinite variety of secondary or incidental modifications of policy, many of which, however, affected tens or hundreds of thousands of relief recipients, within two and a half years the following major shifts occurred:

March 1933: Establishment of the Civilian Conservation Corps, primarily to create work for unemployed youths. The number of persons employed by the CCC at various times has ranged between 250,000 and 600,000; expenditures thus far because of the operation of the CCC are in excess of $2,500 million.

May 1933: Establishment of the Federal Emergency Relief Administration which replaced the Emergency Relief Division of the Reconstruction Finance Corporation and exercised control over the Federal-State general relief program upon which numbers of cases or families ranging from 3,500,000 to 5,500,000 were dependent in various months during 1933, 1934, and 1935. During its existence the

FERA granted to the States almost $3 billion for use for either direct relief or work relief, or for various specialized work or other programs such as that for the relief of transients.

July 1933: Establishment of the Public Works Administration which, though not directly concerned with the programs discussed in this section, for a time seemed likely to become the Federal Government's sole or principal work program agency.

October 1933: Organization of the Federal Surplus Relief Corporation (later the Federal Surplus Commodities Corporation), to distribute among relief clients the usable foodstuffs acquired under the agricultural surplus control program.

November 1933: Initiation of the civil works program as a means of creating emergency employment more rapidly than under the Public Works Administration's program. The Civil Works Administration was largely identical in personnel with the Federal and State relief administrations, but functioned under Federal procedures and controls. About half of the CWA workers were taken from the existing relief rolls and the other half from among unemployed persons not receiving relief. CWA employment reached a maximum in January 1934, of 4,300,000 but thereupon slowly diminished until the program termintaed about the end of March. CWA expeditures totaled about $950 million.

February 1934: College student aid program initiated.

February 1934: Presidential announcement that substantial modifications of relief policy would follow upon the liquidation of the CWA.

April 1934: Initiation of the Federal Emergency Relief Administration's emergency work relief program as a partial replacement of CWA and as a means for expanding and improving the types of State and local work relief in existence prior to CWA.

April 1934: Initiation of the Federal Emergency Relief Administration's rural rehabilitation program.

June 1934: Participation of relief agencies in the handling and processing of cattle shipped from the northwestern drought areas.

Autumn 1934: Active formulation by both FERA and PWA officials of proposals for a new and greatly expanded emergency employment program.

January 1935: Introduction of legislation for the creation of a new works program and beginning of a period of the greatest uncertainty over the future relationship of the Federal Government to the direct relief activities and other porgrams of the State and local relief administrations.

April 1935: Enactment of the Emergency Relief Appropriation Act.

May 1935: Creation of the Works Progress Administration, the Resettlement Administration, and other agencies to administer various phases of the new works program.

June 1935: Creation of the National Youth Administration to talk over the student aid program.

July 1935: Operation of the first WPA projects.

September 1935: Termination of relief applications under the Federal transient relief program.

Autumn 1935: Gradual termination of Federal grants-in-aid to the States for unemployment or general relief.

Relief administration and policy settled down somewhat from 1936 on, so far as the Federal Government was concerned, though major shifts in specific policies of the WPA took place at least two or three times a year and the probable actual volume of WPA employment was seldom predictable far enough in advance to ease the problems encountered by the States and localities in taking over that part of the relief load not absorbed by the WPA. The termination of Federal grants-in-aid indeed tended to multiply greatly the frequency of "crises" in State or local relief.[13]

An appraisal of the relative social and economic desirability of each of these shifts would be possible only through a detailed presentation of the intentions, facts, and probable repercussions involved in each instance. The greatest of the shifts, that whereby the Federal Government substituted the financing and administration of the 1935 works program for the policies in effect in 1933–35, will be examined somewhat in the next section of this paper. It may be enough here to suggest merely that few of the changes would be found to lack in themselves some substantial degree of justification, that the changes when made usually seemed to have the full support of public opinion for the time being at least, and that the "emergency" psychology which had come to dominate relief policy in turn easily overruled strictly relief considerations if a proposed course of action seemed to promise some degree of progress toward general amelioration or recovery. It is probable, furthermore, that most persons upon close study of the realities underlying the relief programs would agree that the attempts to raise standards above those prevailing in 1932 and 1933 were on the whole entirely commendable. It must be added, however, that a case can be made for the contention that the leveling-up process did not occur evenly and that, for instance, the improvement in income status of the WPA workers was obtained partly at the cost of leaving many of the persons dependent upon State or local relief worse off than they would have been in 1933 and 1934. One group of necessitous persons, those aided through the 1933–35 transient relief program, was in the end left largely with no recourse to relief at all.

Regardless of the justification for the policy changes, their frequency served to undermine administrative stability, all the way from the points at which relief applicants were first examined up to the central offices of the Federal and State agencies. In the tremendous strains created it often seemed as though the presumably primary task of giving relief was being subordinated to an infinite variety of special ventures ranging from experiments in continuation classes to efforts to stimulate the native arts and to domesticate in quiet New England farms range steers from the Dakota prairies. If under these varied pressures less control was exercised at times over the scale of expenditures than might otherwise have been the case—and, it should be added, there are no specific proofs of this—it would hardly be surprising.

More significant in the long run was the probable reaction upon the recipients of relief. The shock of losing a seemingly steady job and the subsequent humiliation of submitting to a means test were likely to be followed by a bewildering number of shifts in eligibility, in the programs from which aid came, and in the amount and certainty of the aid. It is at least conceivable that these often probably incomprehensible uncertainties in the policies of "the Government" may have constituted a greater danger to morale and a greater incentive toward finding ways of outwitting the officials, than the simple receiving of relief could ever have in itself involved.

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[13] Nearly a score of critical turns or major reversals in the availability of relief at all. or in the size of relief allowances, or in the definition of relief eligibility, can be identified in, for example, tracing the course of relief in Chicago from the fall of 1935 through the spring of 1940, and numerous other large cities experienced from half a dozen to a dozen similar critical junctures within that time.

These observations have been developed at some length in order to make it understandable why a basic clarification of objectives never seemed to materialize. When the depression broke upon the unprepared communities, there was no time to make neat distinctions between the treatment of unemployed wage earners and that of persons in need because of other types of social or economic problems. A rough segregation was effected in some places by setting up totally new relief programs for the unemployed, but even in these there was no time to inquire too closely into the nature of a given individual's former attachment to the labor market or to decide whether given policies were calculated to preserve and restore this attachment. The relief agencies did the best job they could of spreading out funds which never quite seemed to reach, regardless of whether they were dealing with workers usually steadily employed, with cases in which steady work did not prove to yield sufficient income, with farm families, with families which had left the farm in the hope of finding assistance in the city, with wanderers, or with instances of family disorganization.

It was quite natural, therefore, that the 1932 relief appropriation placed first "relief and work relief" for "needy and distressed people" and referred only subsequently to "relieving the hardship resulting from unemployment." The Federal Emergency Relief Act of 1933 used even broader language when it began by stating:

> That the Congress hereby declares that the present economic depression has created a serious emergency, due to widespread unemployment and increasing inadequacy of State and local relief funds, resulting in the existing or threatened deprivation of a considerable number of families and individuals of the necessities of life, and making it imperative that the Federal Government cooperate more efficiently with the several States * * * in furnishing relief to their needy and distressed people.

Though another section of the act spoke more specifically of "relieving the hardship and suffering caused by unemployment" in actual practice the broader language tended to govern. Furthermore, with the perfection and extension of relief organization previously ignored areas of need were uncovered and became too visible to be rigorously excluded from the operation of the relief programs. An attempt to do so would most certainly have been condemned as ruthless, regardless of the fact that destitution had resulted in these areas in the main not from current unemployment but from the depressed state of agriculture in the twenties, from drought, or from industrial shifts which had decades before produced stranded communities and areas. Similar extensions of the scope of relief occurred on an individual or group basis in metropolitan communities whose social agencies had previously not perfected a citywide organization. Finally, as particular States or localities found themselves more and more hard pressed financially, the general relief load inevitably picked up also for a time a certain proportion of aged, dependent children, and blind cases.

There is no intention here of attempting to weigh the relative need for relief of these various groups. All that is intended is a suggestion that the formulation and administration of policy might have benefited from a clearer perception of the degree to which "unemployment relief" was becoming something only partially related to unemployment in its strict economic sense. In defense of the public officials who acquired this perception slowly, when at all, it is well to remember that congressional discussions of relief policy gave little indication of a greater discrimination, and that the number of Members of Congress who showed initiative or willingness in grappling for an understanding of the whole matter was about as large as the number of economists who became actively interested and concerned.

The ease with which these things can now be said should not therefore blind one to the great difficulty which even the most conscientious and reflective of the persons dealing with the relief problem experiences in establishing, amid the overwhelming responsibilities which they were carrying, tenable distinctions of policy between identifiable groups within the relief population. During more than 2 years the number of individuals dependent upon one or another of the emergency relief programs was seldom less than 20 million in any one month. Under the urgency and haste of administrative operations and the magnitude of the task, it was not, or at least seemed not, easy to acquire the data upon which considered judgments could be founded. Not only was knowledge of the composition of the relief rolls usually imperfect or scant, but the development of labor market research up to the middle thirties was so fragmentary that detailed knowledge about the relief recipients would not have been of much value in analyzing many of the repercussions of relief policy upon special occupational or industrial groups.

Some rudimentary attempts to adjust relief policies to special classifications of relief cases were made. The 1933–35 program for transient relief constituted one instance. A long series of improvisations sought to develop special techniques and work programs to ameliorate what was considered to be the particularly difficult situation of "professional and technical" or of white-collar group workers compelled to apply for relief. In this case, however, a part of the effort to modify the overall policies resulted in certain localities in relaxations of the means test to an extent which ultimately tended to alienate public support. Gradual perception by 1934 that some of the relief concepts developed in urban industrial communities were not well adapted to the situation in agricultural communities brought about the attempt to evolve "rehabilitation" and resettlement schemes for a portion of the rural relief cases. The actual handling of this attempt was, however, often confused by failures to distinguish clearly enough between farm operators and farm laborers, and, even more, between these groups and the "rural nonfarm" population in the villages or in the vicinity of industrial centers which actually constituted a high proportion of what at first was taken as the agricultural component of the relief load. Furthermore, means were not found with which to control the staggeringly high proportion of the rural population applying for relief in some of the Western States where the droughts of 1934 and other years were especially serious and when it seemed particularly hard to prevent relief programs from coming to be viewed as merely one more of the several forms of Government aid to agriculture which had been found acceptable during the preceding decade or two. The other principal attempt at differentiation involved the attempt to segregate "employable" and "unemployable" cases mentioned in the next section because of its bearing upon work relief policy.

With the possible exception of rural rehabilitation and resettlement, all of these efforts to develop classified programs or policies continued, however, to be heavily colored by the confusion between "general" or "emergency" relief, on the one hand, and the problem of unemployment, on the other. "Unemployment" had come to be stretched very early in the depression to cover not only the loss of jobs but almost everything which formerly might have been labeled as "poverty" or "destitution." This merging of concepts made it easier during the depth of the depression to get support for appropriations sufficient to ameliorate the destitution which the public generally seemed to regard within the proper scope of relief. To the extent, however, that the problem came to be accepted as a unit, the difficulty of getting special attention for its parts was not only increased but when in later years reemployment was obviously developing, the identification of relief with unemployment was so deep rooted that it became difficult to hold public and legislative support for continued extension of the relief measures.

The Work Relief and Emergency Employment Programs

Discussion of all of the considerations that must enter into a careful evaluation of the merits and disadvantages of work relief as a relief or unemployment relief device would require an inordinate extension of the length of this paper. The preference of the present Federal administration and probably of the general public for work relief continues in any case to seem unshakable. It is a cardinal principle of American psychology that work is under practically all circumstances strongly preferable to idleness. Attachment of the word "work" to particular programs has therefore usually served to prejudge the matter, and it is difficult to awaken any substantial interest in the rather subtle factors that require examination in an appraisal of the nature and effects of one particular work policy as against another.

That much depends upon the way in which work is given, to whom it is given, the standards of supervision and performance maintained, the comparability of the work to more normal types of pecuniary unemployment, and the actual utility of the work performed, will seem obvious but these elements of the problem have seldom obtained thorough debate when Federal, State, or local work relief programs were being initiated or modified. Much more prominent in the discussion of proposals or actual performances has been the supposed size or monetary value of physical accomplishments. It tends to be assumed that work relief succeeds in getting out of persons who would otherwise be comfortably idle at the public cost something by way of a tangible return from expenditures which would have to be made anyway and that, whatever the actual accomplishment, it is all net gain. That this pleasing assumption is subject to a number of qualifications (and that in many instances the "net gain" may be small or illusory) has been found by the economists who have given the problem careful attention.

The argument that the performance of some sort or semblance of work is essential to prevent the deterioration of morale presents many more difficulties. The few objective studies which have been made of relief and morale all seem at first to support the case for work relief. In part this may be nothing more than a reflection of the fact that, by and large, the work programs have tended to be more stably financed and to have involved less jeopardy than direct relief of seemingly capricious variations in relief allowances and status. One must of course admit that the wage earner who leaves his home in the morning to go to a job, no matter what sort of a job, has definite psychological advantages over the man who finds himself compelled to explain or to justify to members of his family and his neighbors the fact that he is not currently engaged in any particular occupation.

It seems preferable, however, not to attempt here the necessarily very detailed treatment which a careful and full exploration of the work relief controversies would require, but to be content instead with merely pointing out certain elements of the problem which have had an important bearing upon the general thinking about unemployment in the course of the depression.

One set of considerations which cannot be ignored is that once it is decided that work shall be required of relief recipients, it becomes difficult to exclude seemingly deserving marginal cases to whom relief would readily be denied if no return were involved, but whose willingness to perform work creates a prima facie case for leniency. The available records of the work relief programs sponsored locally early in the depression contained many evidences that a relaxation of relief eligibility was not an uncommon accomplishment of work relief programs, there were indications, though these were never documented, that similar reasoning may at least in some degree have increased the number of relief recipients during the operation of the Federal Emergency Relief Administration's 1934–35 emergency work relief program. Observers of the relief situation in some of the western farming States found then and earlier that it was difficult to get local officials to see why the "budgetary deficiency" principle and the other accompaniments of the means test should be applied as rigorously to the farmer who was ready to put in a week's hard work on the roads as to the odd-job man or migratory worker who asked for relief in the towns and whose physical or other limitations made it unlikely that the relief given would be substantially repaid.

A further factor experienced especially from 1934 on was that the effort to satisfy public opinion by substituting substantial construction projects for what had been berated as "leaf raking" activities necessarily involved types of skills which might not be found on the relief rolls at the precise time when they were most needed. A variety of persons without relief status, most of them drawn from the building trades, had therefore to be employed to round out the crews of particular projects. That this was by no means a negligible factor may be indicated by the fact that employees without relief status and not engaged in administrative work received wage payments aggregating $100 million during the 18 months or so of the FERA's 1934–35 work program. Comparable figures for the similar expenditures under the WPA are not currently available but must have been very much larger, and it is this portion of the WPA employment which has been especially responsible for contentions of improper competition with private employment.

One of the major objectives set when the works program of the last half of the decade was formulated was that work assignments would be governed carefully—in contrast with the hasty and rather undiscriminating assignment of workers under the CWA, for instance—by an intention of preserving or enhancing prior occupational skills and aptitudes. This concept of the WPA as a combined relief and training program had to be abandoned without being tried. It would necessarily have required the development and operation of projects nicely adjusted to both a great variety of previous industrial or other employment and to great uncertainties about the length of time for which any one individual worker might remain out of private employment. While conscientious efforts were made to improve the quality and range of projects, in the end impatience over the slowness with which the program was getting underway and the inherent difficulties of effectively operating a sufficiently wide range of projects made it necessary to find projects first and then to assign as best as possible those workers who were available. This is to some extent shown by the fact that road and street projects have at all times accounted for 40 percent or more of total WPA employment.

The assumption that a reasonably clear line could be drawn between "employable" and "unemployable" relief cases constituted another basic element in the reasoning underlying the 1935 Federal works policy. The attempt to draw this distinction arose partially out of the search of Federal relief officials for some tenable formula by which a portion of the relief costs in the Southern States, which had since 1932 been defrayed almost entirely by the Federal Government, could be forced back upon the States and localities. It was thought that the so-called "unemployables" could be assumed to represent roughly the types of welfare cases which were being supported out of non-Federal funds in other States and which in any case were expected to be partly absorbed by the Federal-State public assistance programs under the Social Security Act. This supposed distinction was in 1935 taken as the dividing line between Federal and State or local unemployment relief responsibilities. It was stated that the Federal works program would provide employment for all the "employable" relief cases (the question whether this included all "employables" within a single household or only the principal breadwinner or some substitute was not entirely clarified) and the States or localities would be expected to finance the costs of relief to "unemployables." The impossibility of arbitrarily determining individual "employability" or "unemployability" except in terms of specific employment openings appears not to have been considered carefully. To the States and localities it was more important, however, that even the large amounts appropriated for the Federal works program proved insufficient to absorb all unemployed able-bodied workers so that substantial numbers remained charges upon State or local relief funds. In part this would have occurred regardless of the size of the Federal work relief appropriations inasmuch as it would have been impossible to manage work projects flexibly enough to tide over those "employables" whose need for relief is limited to a few weeks, or to cover by work relief destitution resulting from the illness of the breadwinner.

Whether the provision of relief on a means test basis, the achievement of satisfactory work results, or the provision generally of emergency employment to persons unable to find work (or to find suitable work) should be the principal objective of work relief has presented a dilemma which can hardly be said to have been faced clearly by the stated objectives or the actual practices of the work relief programs during the thirties. Usually an attempt was made to attain in some degree at least two if not all three of the objectives, and perhaps as well a fourth one of stimulating general economic recovery. In the face of conflicting public pressures and of varying opinions about the steps most likely to bring about reemployment, the works programs passed through a succession of modifications or vacillations in policy concerning eligibility for assignment to work, the frequency and nature of the subsequent applications of means test principles, the compensation offered and the hours of work, and the types of projects permissible. It is at least an interesting speculative problem whether both the giving of relief and the performance of work might not have gone forward more effectively had a clear-cut separation of relief and of emergency employment been established. A first consideration under these circumstances would have been the assurance of relief under suitable conditions to those persons actually falling within the groups for whom relief was intended. Emergency employment could thereupon have been offered, subject to whatever wage and working conditions sound social and economic policy might have dictated, to as many of the actual number of the unemployed as a combined consideration of the magnitude of the unemployment problem and the necessary limits of Federal fiscal policy would at any given time permit. It may of course be said that this was what the 1935 works program sought to do. It, however, hardly met the first of the considerations here stipulated and, largely for that reason, was forced into innumerable halfway measures which prevented it from becoming either a clear-cut program for emergency employment or an unequivocal relief program.[14]

The Need for a Clarification of Basic Concepts

The preceding pages have concentrated attention upon the factors which contributed to the lack of a coherent and understandable unemployment policy during the thirties. It is unfortunately not possible at this late point to treat similarly other important aspects of the successive policies adopted. Of these the interplay between relief—especially the work program wage policies—and the labor market generally, including the ways in which the administration of relief created incentives or deterrents to reemployment, especially merits thorough consideration. All that can be noted here, however, is that—aside from certain special problems in the building trades field—definitely preceptible repercussions upon private employment were concentrated within agricultural employment and various forms of casual or intermittent work such as domestic service and odd jobs. The effect of the expenditure of 19 or more billions of dollars upon fiscal policies and upon the attitudes and fears of private investors is a matter falling essentially within a review of the total financial history of the decade. Perhaps the most striking and disturbing impact of the relief costs was their unpredictability from year to year, even from month to month.

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[14] A fuller account of the dilemmas involved in the relation of work relief to the relief and unemployment problems is given in the chapter on "Public Relief," prepared by Paul T. Homan, in the Brookings Institution's "Government and Economic Life" (1940), vol. II, pp. 1161–1207.

Another gap in the receding presentation which cannot be covered adequately at this point concerns the role of the unemployment compensation program. This, however, will be of far greater significance in the forties than in the thirties, having reached full operation only virtually at the end of the decade. It may be sufficient for present purposes to point out that the unemployment compensation statutes represented the first, or at least the first permanent, step of the past decade to treat the unemployment problem in a way geared to the functioning of the Nation's economy as a whole, instead of terms which assumed the establishment of an economy of the unemployed outside of, or in competition with, the rest of the economy.

The almost constant failure of the other unemployment problems to take into account the actual phenomena of the labor market strikes one forcibly in looking back over the past 10 years. The extent to which individual policymakers may have been responsible for this is of transitory interest. More important is the fact that the gaps between relief policies and the effective functioning of the labor market largely represented a lack of current and adequate labor market information. Officials could not be wiser than their times, and the time was one in which even at the end of the decade, to quote a memorandum summarizing the discussion of the Social Science Research Council's labor market research conference last winter:

> Our present knowledge of the labor market has * * * become sufficient to shake our confidence in the concepts which have been accepted in the past, but it is not yet sufficient to yield a clear picture of the adjustments which occur between labor supply and demand. We know enough to be aware that the simple contrasts traditionally used—such as those between employment and unemployment, the gainfully employed and the not gainfully employed, seasonal employment and nonseasonal employment, casual and steady work, the employables and the unemployables—do not possess the significance that they may once seemed to have. But, both more valid concepts and the evidence upon which new concepts can be built remain only partially and inadequately explored.

Significant advances in knowledge are now being made. The Work Projects Administration itself has contributed much in the last several years through the studies of its national research project and the sample studies of unemployment of its Division of Research. Unemployment compensation, employment office, and old-age insurance operations are providing a basic body of data on points which previously could not be more than matters of conjecture. A number of able private investigators have turned their attention to the dynamics of labor supply and demand. The findings of research are, however, only slowly making an impact upon the depression's greatest misapprehensions—that the problems of relief and unemployment are substantially identical, and that the unemployment problem as thus viewed constitutes one huge monolithic entity.

The consequences of these misapprehensions extend far beyond scientific interest alone. They provide the principal recurrent rationale for sweeping "remedies," for the marshaling of new "white rabbits," and for much of the content of the large-spending philosophy. As long as unemployment is taken as a great single whole, the view that it has become a permanent characteristic upon the economy easily follows, together with a tendency to magnify its absolute volume. Among nonspecialists, even those who have not totally accepted the philosophy of despair, the belief that unemployment continues to range somewhere between 8 and 10 million is still usual. These large figures are still bandied about after the more credible estimates have fallen to from 6 to 8 million, and evidence is accumulating to suggest that an estimate in the neighborhood of 4 million as of the middle of the fall might well have been more realistic. What the further effects of the defense program may be as its scale of operations expands can only be conjectured as yet, but it appears that practically all of the stock assumptions of the last few years concerning the volume and permanence of unemployment, the extent to which a "hard core" has developed, among the unemployed, and the nature and extent of the labor supply generally, may have to be completely recast.

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THE SICK WORLD OF JOHN MAYNARD KEYNES

(By Robert L. Heilbroner)

A few years before his death, Thorstein Veblen had done something oddly out of character—he had taken a plunge in the stock market. A friend had recommended an oil stock, and Veblen, thinking of the financial problems of old age, had risked a part of his savings. He made a little money on the venture at first, but his inseparable bad luck plagued him—no sooner had the stock gone up than it was cited in the current oil scandals. His investment eventually became worthless.

The incident is unimportant in itself except insofar as it reveals another tiny chink in Veblen's armor. And yet, in another context, this pathetic misadventure is curiously revealing. For Veblen himself had fallen victim to the same dazzling lure which blinded America: When the most disenchanted of its observers could be tempted to swallow a draught, is there any wonder that the country was drunk with the elixir of prosperity?

Certainly the signs of prosperity were visible at every hand. America in the late 1920's had founds jobs for 45 million of its citizens to whom it paid some $77 billion in wages, rents, profits, and interest—a flood of income comparable to nothing the world had ever seen. When Herbert Hoover said with earnest simplicity, "We shall soon with the help of God be within sight of the day when poverty will be banished from the Nation," he may have been shortsighted—as who was not?—but he rested his case on the incontrovertible fact that the average American family lived better, ate better, dressed better, and enjoyed more of the amenities of life than had any average family hitherto in the history of the world.

The Nation was possessed of a new vision, one a great deal more uplifting than the buccaneering ideals of the robber barons. John J. Raskob, chairman of the Democratic Party, gave it precise expression in the title of an article he wrote for the Ladies' Home Journal: "Everybody Ought To Be Rich." "If a man saves $15 a week, wrote Raskob, "and invests in good common stocks, at the end of 20 years he will have at least $80,000 and an income from investments of around $400 a month. He will be rich."

That bit of arithmetic merely presupposed that such a man would keep reinvesting his dividends, figured at about 6 percent a year. But there was an even more alluring road to riches. Had a devotee of Raskob's formula spent his dividends and merely allowed his money to increase with the trend of stock prices, he would have achieved his goal of wealth just as rapidly and a good deal less painfully. Suppose he had bought stock in 1921 with the $780 he would have saved at $15 a week. By 1922 his money would be worth $1,092. If he then added another $780 yearly he would have found himself worth $4,800 in 1925, $6,900 a year later, $8,800 in 1927, and an incredible $16,000 in 1928. Incredible? By May of 1929 he would have figured his worldly wealth at over $21,000: in less than 9 years his savings of $7,020 would have tripled. And when the great bull market had gone on for nearly half a generation in an almost uninterrupted rise, who could be blamed for thinking this the royal road to riches? Barber or bootblack, banker or businessman, everyone gambled and everyone won, and the only question in most people's minds was why they had never thought of it before.

It is hardly necessary to dwell upon the sequel. In that awful last week of October 1929, the market collapsed. To the brokers on the floor of the stock exchange it must have been as if Niagara had suddenly burst through the windows, for a cataract of unmanageable selling converged on the marketplace. In sheer exhaustion brokers wept and tore their collars; they watched stupefied as immense fortunes melted like spun sugar; they shouted themselves hoarse trying to attract the attention of a buyer. The grim jokes of the period speak for themselves: it was said that with every share of Goldman Sachs you got a complimentary revolver, and that when you booked a hotel room the clerk inquired, "For sleeping or jumping?"

When the debris was swept away the wreckage was fearful to behold. In 2 insane months the market lost all the ground it had gained in 2 manic years; $40 billion of values simply disappeared. By the end of 3 years our investor's inflated paper fortune of $21,000 had diminished by 80 percent; his original $7,000 of savings was worth barely $4,000. The vision of every man a wealthy man had been shown up as an hallucination.

In retrospect it was inevitable. The stock market had been built on a honeycomb of loans that could bear just so much strain and no more. And more than that, there were shaky timbers and rotten wood in the foundation which propped up the magnificent show of prosperity. Chairman Raskob's formula for retirement was arithmetically accurate enough, all right, but it left unanswered the important question of how a man was to save $15 out of an average pay envelope which came to only $30.

The national flood of income was indubitably imposing in its bulk, but when one followed its course into its millions of terminal rivulets, it was apparent that the Nation as a whole benefited very unevenly from its flow. Some 24,000 families at the apex of the social pyramid received a stream of income three times as large as 6 million families squashed at the bottom—the average income of the fortunate families at the peak was 630 times the average income of the families at the base. Nor was this the only shortcoming. Disregarded in the hullabaloo of limitless prosperity were 2 million citizens out of work, and ignored behind their facade of classical marble, banks were failing at the rate of two a day for 6 years before the crash. And then there was the fact that the average American had used his prosperity in a suicidal way; he had mortgaged himself up to his neck, had extended his resources dangerously under the temptation of installment buying, and then had insured his fate by eagerly buying fantastic quantities of stock—some 300 million shares, it is estimated—not outright, but on margin.

Inevitable or not, it was far from visible at the time. It was a rare day that did not carry the news of some typical figure assuring the Nation of its basic health. Even so eminent an economist as Irving Fisher of Yale was lulled by the superficial evidences of prosperity into announcing that we were marching along a "permanently high plateau"—a figure of speech given a macabre humor by the fact that stocks fell off the brink of that plateau 1 week to the day after he made his statement.

But dramatic as it was, it was not the wild decline of the stock market which most damaged the faith of a generation firmly wedded to the conviction of never-ending prosperity. It was what happened at home. A few items from those dreary years may serve to illustrate. In Muncie, Ind.—the city made famous by its selection as "Middletown"—every fourth factory worker lost his job by the end of 1930. In Chicago the majority of working girls were earning less than 25 cents an hour and a quarter of them made less than 10 cents. In New York's Bowery alone, 2,000 jobless crowded into breadlines every day. In the Nation as a whole, residential construction fell by 95 percent. Nine million savings accounts were lost. Eighty-five thousand businesses failed. The national volume of salaries dwindeled 40 percent; dividends 56 percent; wages 60 percent.

And the worst of it, the most depressing aspect to the great depression, was that there seemed to be no end to it, no turning point, no relief. In 1930, the Nation manfully whistled "Happy Days Are Here Again," but the national income precipitously fell from $87 billion to $75 billion. In 1931 the country saying "I've Got Five Dollars"; meanwhile its income plummeted to $59 billion. In 1932 the song was grimmer: "Brother Can You Spare a Dime?"—national income had dwindled to a miserable $42 billion.

By 1933 the Nation was virtually prostrate. The income of the country was down to $39 billions. Over half the prosperity of only 4 years back had vanished without a trace; the average standard of living was back where it had been 20 years before. On street corners, in homes, in Hoovervilles, 14 million unemployed sat, haunting the land. It seemed as if the proud spirit of hope had been permanently crushed out of America.

It was the unemployment that was hardest to bear. The jobless millions were like an embolism in the Nation's vital circulation; and while their indisputable existence argued more forcibly than any text that something was wrong with the system, the economists wrung their hands and racked their brains and called upon the spirit of Adam Smith, but could offer neither diagnosis nor remedy. Unemployment—this kind of unemployment—was simply not listed among the possible ills of the system: it was absurd, impossible, unreasonable, and paradoxical. But it was there.

It would seem logical that the man who would seek to solve this impossible paradox of not enough production existing side by side with men fruitlessly seeking work would be a leftwinger, an economist with strong sympathies for the proletariat, an angry man. Nothing could be further from the fact. The man who tackled it was almost a dilettante with nothing like a chip on his shoulder. The simple truth was that his talents inclined in every direction. He had, for example, written a most recondite book on mathematical probability, a book that Bertrand Russell had declared "impossible to praise too highly"; then he had gone on to match his skill in abstruse logic with a flair for making money—he accumulated a fortune of £500,000 by way of the most treacherous of all roads to riches: dealing in international currencies and commodities. More impressive yet, he had written his mathematics treatise on the side, as it were, while engaged in Government service, and he piled up his private wealth by applying himself for only half an hour a day while still abed.

But this is only a sample of his many-sidedness. He was an economist, of course—a Cambridge don with all the dignity and erudition that go with such an appointment; but when it came to choosing a wife he eschewed the ladies of learning and picked the leading ballerina from Diaghilev's famous company. He managed to be simultaneously the darling of the Bloomsbury set, the cluster of Britain's most avant-garde intellectual brilliants, and also the chairman of a life insurance company, a niche in life rarely noted for its intellectual abandon. He was a pillar of stability in delicate matters of international diplomacy, but his official correctness did not prevent him from acquiring a knowledge of other European politicians that included their mistresses, neuroses, and financial prejudices. He collected modern art before it was fashionable to do so, but at the same time he was a classicist with the finest private collection of Newton's writings in the world. He ran a theater, and he came to be a director of the Bank of England. He knew Roosevelt and Churchill and also Bernard Shaw and Pablo Picasso. He played bridge like a speculator, preferring a spectacular play to a sound contract, and solitaire like a statistician, noting how long it took for the game to come out twice running. And he once claimed that he had but one regret in life—he wished he had drunk more champagne.

His name was John Maynard Keynes, an old British name (pronounced to rhyme with "rains") that could be traced back to one William de Cahagnes and 1066. Keynes was a traditionalist; he liked to think that greatness ran in families, and it is true that his own father was John Neville Keynes, an illustrious enough economist in his own right. But it took more than the ordinary gifts of heritage to account for the son; it was as if the talents that would have sufficed half a dozen men were by happy accident crowded into one person.

By a coincidence he was born in 1883, in the very year that Karl Marx passed away. But the two economists who thus touched each other in time, although each was to exert the profoundest influence on the philosophy of the capitalist system, could hardly have differed from one another more. Marx was bitter, at bay, heavy, and disappointed; as we know, he was the draftsman of capitalism doomed. Keynes loved life and sailed through it buoyant, at ease, and consummately successful to become the architect of capitalism viable. Perhaps we can trace Marx's passionate prophecy of collapse to the threat of neurotic failure which marked his practical life; if so we can surely credit Keynes' persuasive salesmanship of reconstruction to the exhilaration and achievement which marked his.

His boyhood was Victorian, old school, and premonitory of brilliance. At age 4½ he was already puzzling out for himself the economic meaning of interest; at 6 he was wondering about how his brain worked; at 7 his father found him a "thoroughly delightful companion." He went to a Mr. Goodchild's preparatory school where he gave evidence of his flair for handling his fellow men: he had a "slave" who obediently trailed him with his schoolbooks, a service rendered in exchange for assistance with the knottier problems of homework, and a "commercial treaty" with another boy whom he disliked: Keynes agreed to get the boy one book a week out of the library in exchange for which the party of the second part agreed never to approach within 15 yards of the party of the first.

At 14 he applied for and won a scholarship to Eton. Horror stories on English public schools to the contrary, he was neither sadistically abused nor intellectually quashed. He bloomed; his marks were superlative; he won prizes by the score; bought himself a lavender waistcoat; acquired a taste for champagne; grew tall and rather stooped and cultivated a mustache; rowed; became a formidable debater; and without turning into a snob became an Eton enthusiast. Yet a letter to his father when he was only 17 shows a discernment unusual for that age. The Boer War had come to a climax and the headmaster made a speech; Keynes described it perfectly in five phrases: "It was the usual stuff. Ought to show our thankfulness; remember dignity of school; if anything done must be of best; as always before."

Eton was a vast success; King's College at Cambridge was to be a triumph. Alfred Marshall begged him to become a full-time economist; Professor Pigou—Marshall's heir-to-be—had him to breakfast once a week. He was elected secretary of the union, a post automatically carrying an eventual presidency of one of the most famous nongovernmental debating societies in the world; he was sought out by Leonard Woolf and Lytton Strachey and the nucleus of what was to be known as the Bloomsbury group came into being; he climbed mountains (Strachey complained at the "multitudes of imbecile mountains"); bought books; stayed up into the small hours arguing; shone. He was a phenomenon.

But even phenomena must eat and there came the question of what to do. He had very little money and the prospect of an academic career offered less. And he had larger visions: "I want to manage a railway or organize a trust," he wrote to Strachey; "it is so easy and fascinating to master the principles of these things."

No one offered him a railway or a trust and he chose instead the easy path for the bright young man. He took the civil service examinations with an apparent indifference that made Strachey's sister ask if his insouciance was a pose. No, he had it all figured out and so what was the use of fretting; he was sure to land in the top 10. Of course he did; he was second, and his lowest mark was in the economics section of the examination. "The examiners presumably knew less than I did," he explained later, a remark which would be unforgivably presumptuous if it were not, in this case, entirely true.

Hence, in 1907 to the India office. Keynes hated it. He was spending his freshest energies at home on an early draft of his mathematical treatise, and the post of a minor official in a Government office was a far cry from running a railway. After 2 years he had had enough. His efforts, he declared, consisted in having one pedigreed bull shipped to Bombay, and all that he had found in Government work was that an ill-considered remark might result in your being "snubbed." He resigned and went back to Cambridge. But his years could not have been so utterly useless. From what he learned of Indian affairs he wrote a book in 1913 on "Indian Currency and Finance" which everyone admitted to be a small masterpiece, and when a royal commission was formed that same year to look into the Indian currency problem Keynes at 29 was asked to be a member—a remarkable honor.

Cambridge was more to his liking. He was an immediate success and as a mark of the esteem in which he was held, he was given the editorship of the Economic Journal, Britain's most influential economic publication—a post he was to hold for 33 years.

Even more pleasant than Cambridge was Bloomsbury. Bloomsbury was both a place and a state of mind; the little group of intellectuals to whom Keynes had belonged as an undergraduate had now acquired a home, a philosophy, and a reputation. Perhaps not more than 20 or 30 people ever belonged to that charmed circle, but their opinions set the artistic standards of England—after all, it included Leonard and Virginia Woolf, E. M. Forster, Clive Bell, Roger Fry, Lytton Strachey. If Bloomsbury smiled, a poet's name was made; if it frowned, a painter was décdassé. It is said that it could use the word "really" in a dozen different intonations, of which sophisticated boredom was by no means the least. It was a group at once idealistic and cynical, courageous and fragile. And slightly mad; there was the incident known as the Dreadnought hoax in which Virginia Woolf (then Stephen) and a few coconspirators dressed up as the Emperor of Abyssinia and entourage and were thus escorted with honors aboard one of His Majesty's most closely guarded battleships.

In all of this, Keynes was a central figure; adviser, councilor, referee. He could talk about anything with complete assurance: William Walton, the composer; Frederick Ashton, the choreographer, and any other artist or professional was used to Keynes' "No, no, you're absolutely wrong about that * * *." His nickname, it might be added, was Pozzo, a sobriquet pinned on him after a Corsican diplomat known for his multifarious interests and his scheming mind.

It was a rather dilettantish beginning for one who was to set the capitalist world by its ears.

The war years somewhat disrupted Bloomsbury. Keynes was called to the Treasury and assigned to work on Britain's oversea finances. He must have been something of a phenomenon there, too. An anecdote in point was later recounted by an old associate: "There was an urgent need for Spanish pesetas. With difficulty a smallish sum was raked up. Keynes duly reported this to a relieved Secretary to the Treasury who remarked that at any rate for a short time we had a supply of pesetas. 'Oh, no,' said Keynes, 'What!' said his horrified chief. 'I've sold them all; I'm going to break the market.' And he did."

He was soon a key figure in the Treasury. His biographer and fellow economist, Roy Harrod, tells us that men of ripe judgment have declared that Keynes contributed more to winning the war than any other person in civil life. Be that as it may, he managed to find time for other things. On a financial mission to France he was seized with the bright idea that it would help balance the French accounts with the British if they sold some of their pictures to the National Gallery. He thus casually acquired $100,000 worth of Corot, Delacroix, Forain, Gauguin, Ingres, and Manet for the British, and managed to get a

Cézanne for himself: Big Bertha was shelling Paris and prices were pleasantly depressed. Back in London he attended the ballet; Lydia Lopokova was dancing the part of the beauty in "The Good-Humored Ladies" and she was the rage. The Sitwells had her to a party where she and Keynes met. One can imagine Keynes with his classic English and Lydia with her classic struggles with English: "I dislike being in the country in August," she said, "because my legs get so bitten by barristers."

But all this was tangential to the main thing—the settlement of Europe after the war. Keynes was now an important personage—one of those unidentified men one sees standing behind the chair of a head of state ready to whisper a guiding word. He went to Paris as Deputy for the Chancellor of the Exchequer on the Supreme Economic Council with full power to make decisions and as representative of the Treasury at the peace conference itself. But he was only second echelon; he had a grandstand seat but no power to interfere directly in the game. It must have been an agony of frustration and impotence, for at close quarters he watched while Wilson was outmaneuvered by Clemenceau and the ideals of a humane peace replaced by the achievement of a vindictive one.

"It must be weeks since I've written anyone," he wrote to his mother in 1919, "but I've been utterly worn out, partly by work, partly by depression at the evil around me. I've never been so miserable as for the last 2 or 3 weeks; the peace is outrageous and impossible and can bring nothing but misfortune behind it."

He dragged himself from the sickbed to protest against what he called the "murder of Vienna," but he could not stop the tide. The peace was to be a Carthaginian one and Germany was to pay a sum of reparations so huge that it would force her into the most vicious practices of international trade in order to earn the pounds and francs and dollars. This was not the popular opinion, of course, but Keynes saw that in the Versailles Treaty lay the unwitting goad for an even more formidable resurgence of German autarchy and militarism.

He resigned in despair; then 3 days before the treaty was signed he began his polemic against it. He called it the economic consequences of the peace; when it appeared that December (he wrote it at top speed and fury), it made his name.

It was brilliantly written and crushing. Keynes had seen the protagonists at work and his descriptions of them combined the skill of a novelist with the cutting insight of a Bloomsbury critic. He wrote of Clemenceau that "He had only one illusion—France; and one disillusion—mankind, including his own colleagues not least"; and of Wilson, "* * * like Odysseus, he looked wiser when seated." But while his portraits sparkled, it was his analysis of the harm that had been done that was unforgettable. For Keynes saw the conference as a reckless settlement of political grudges in utter disregard of the pressing problem of the moment—the resuscitation of Europe into an integrating and functioning whole.

> The council of four paid no attention to these issues, being preoccupied with others—Clemenceau to crush the economic life of his enemy, Lloyd George to do a deal and bring home something that would pass muster for a week, the President to do nothing that was not just and right. It is an extraordinary fact that the fundamental problems of a Europe starving and disintegrating before their eyes, was the one question in which it was impossible to arouse the

> interest of the four. Reparation was their main excursion into the economic field, and they settled it as a problem of theology, of politics, of electoral chicane from every point of view except that of the economic future of the States whose destiny they were handling.

And he went on to deliver this solemn warning:

> The danger confronting us, therefore, is the rapid depression of the standard of life of the European populations to a point which will mean actual starvation for some (a point already reached in Russia and approximately reached in Austria). Men will not always die quietly. For starvation, which brings to some lethargy and a helpless despair, drives other temperaments to the nervous instability of hysteria and to a mad despair. And these in their distress may overturn the remnants of organization, and submerge civilization itself in their attempts to satisfy desperately the overwhelming needs of the individual. This is the danger against which all our resources and courage and idealism must now cooperate.

The book was an immense success. The unworkability of the treaty was manifest almost from the moment of its signing, but Keynes was the first to see it, to say it, and to suggest an outright revision. He became known as an economist of extraordinary foresight, and when the Dawes plan in 1924 began the long process of undoing the impasse of 1919, his gift for prophecy was confirmed.

He was famous now, but there remained the question of what to do. He chose business, the riskiest possible business, and with a capital of a few thousand pounds he began to speculate in the international markets. He nearly lost it all, was helped with a loan from a banker who had never met him but who was impressed by his work during the war, recouped, and went on to roll up a fortune worth then $2 million. It was all done in the most casual way. Keynes disdained inside information—in fact, he once declared that Wall Street traders could make huge fortunes if only they would disregard their "inside" information—and his own oracles were nothing but his minute scrutiny of balance sheets, his encyclopedic knowledge of finance, his intuition into personalities, and a certain flair for trading. Abed in the morning he would study his items of financial intelligence, make his decisions, phone his orders, and that was that; the day was now free for more important things like economic theory. He would have gotten along famously with David Ricardo.

He made money, by the way, not only for himself. He became the bursar of King's College and turned a small fund of £30,000 into one of £380,000. He managed an investment trust and guided the finances of a life insurance company. But he never did, despite his undergraduate wish, run a railway.

Meanwhile—there was always more than one thing going on at a time with Keynes—he wrote for the Manchester Guardian, gave regular classes in Cambridge, in which he spiced dry theory with an intimate account of the goings-on and personalities of the international commodity marts, bought more pictures, acquired more books, and married Lydia Lopokova. The ballerina became the wife of the Cambridge don, a new role which, somewhat to the surprise (and relief) of Keynes' friends, she filled to perfection. She gave up her professional career, of course, but a visiting friend later reported hearing alarming thumps and crashes from above: Lydia was still practicing her art.

She was extremely beautiful; he was altogether the proper admirer, not handsome but tall and dignified. His large, somewhat gawky frame provided a suitable pedestal for a somewhat triangular, inquisitive face: a straight nose, a clipped mustache held over from Eton days, full, mobile lips, and a rather disappointing chin. The eyes were most revealing; under arching brows they could be grave, icy, sparkling, or "soft as bees' bottoms in blue flowers," as one editor wrote, depending, perhaps, on whether he was acting as Government emissary, speculator, Bloomsbury brilliant, or balletomane.

There was one odd mannerism: Keynes liked to sit like an English variant of a Chinese mandarin, with his hands tucked out of sight in the opposing sleeves of his coat. It was gesture of concealment made all the more curious because of his inordinate interest in other people's hands and his pride in his own. Indeed, he even went so far as to have casts made of his own and his wife's hands and talked of making a collection of casts of his friends'; and when he met a man the first thing he noticed was the character of his palms and fingers and nails. Later, when he first talked with Franklin Roosevelt, he noted down this description of the President:

> * * * But at first, of course, I did not look closely at these things. For naturally my concentrated attention was on his hands. Firm and fairly strong, but not clever or with finesse, shortish round nails like those at the end of a businessman's fingers. I cannot draw them right yet, while not distinguished (to my eye), they are not of a common type. All the same, they were oddly familiar. Where had I seen them before? I spent 10 minutes at least searching my memory as for a forgotten name, hardly knowing what I was saying about silver and balanced budgets and public works. At last it came to me: Sir Edward Grey. A more solid and Americanized Sir Edward Grey.

It is doubtful whether Roosevelt would have written as he did to Felix Frankfurter: "I had a grand talk with K. and liked him immensely," had he known that he was being summed up in the eyes of the other as a businessman's version of an English foreign secretary.

By 1935 it was already a brilliantly established career. The book on "Indian Currency and Finance" had been a tour de force, albeit a small one; "The Economic Consequences of the Peace," had made an éclat; and the "Treatise on Probability," was an equal triumph, although far more specialized. An amusing incident in regard to this last book: Keynes was having dinner with Prof. Max Planck, the mathematical genius who was responsible for the development of quantum mechanics, one of the more bewildering achievements of the human mind. Planck turned to Keynes and told him that he had once considered going into economics himself. But he had decided against it—it was too hard. Keynes repeated the story with relish to a friend back at Cambridge. "Why, that's odd," said the friend. "Bertrand Russell was telling me just the other day that he'd also thought about going into economics. But he decided it was too easy."

But mathematics was only a sideline, as we know; in 1923 a "Tract on Monetary Reform" again raised the eyebrows of the world. Now Keynes was inveighing against the fetishism of gold, against the peculiar passivity evidenced by men's abdication of conscious control of their own currencies and their transfer of this responsibility to the impersonal mechanism of an international gold standard. It was a technical book of course, but like all of Keynes' works, lit up with telling phrases. One thrust will surely be added to the stock of English aphroisms: talking of the "long run" consequences of some venerable economic axiom, Keynes dryly wrote: "In the long run we are all dead."

Then to top it off, in 1930 he had published a "Treatise on Money"—a long, difficult, uneven, sometimes brilliant and sometimes baffling attempt to account for the behavior of the whole economy. The treatise was a fascinating book, for it took as its central problem the question of what made the economy operate so unevenly—now bustling with prosperity, now sluggish with depression.

The question, of course, had absorbed the attention of economists for decades. Great speculative crashes aside—like the 1929 bust and its predecessors in history (we have seen one such in 18th-century France when the Mississippi Company collapsed)—the normal course of trade seemed to evidence a wavelike succession of expansions and contractions, not unlike a kind of economic breathing. In England, for example, business had been bad in 1801, good in 1802, bad in 1808, good in 1810, bad in 1815, and so on for over a hundred years; in America the pattern was the same although the dates were slightly different.

What lay behind this parade of prosperity and depression? At first the cycles of business were thought to be a sort of mass nervous disorder: "These periodic collapses are really mental in their nature, depending on variations of despondency, hopefulness, excitement, disappointment, and panic," wrote an observer in 1867. But although such a statement was undoubtedly a good description of the state of mind in Wall Street or Lombard Street, Lancaster or New England, it left unanswered the basic question: What causes such a widespread nervous hysteria?

Some early explanations looked outside the economic process for an answer. W. Stanley Jevons, whose Victorian economics of pain and pleasure we have met before, ventured an explanation which pinned the blame on sunspots—not quite so farfetched an idea as it might at first appear. For Jevons was impressed by the fact that business cycles from 1721 to 1878 had an average duration, from boom to boom, of 10.46 years, and that sunspots (which had been discovered in 1801 by Sir William Herschel) showed a periodicity of 10.45 years. The correlation, Jevons was convinced, was too close to be purely accidental. Sunspots, he thought, caused weather cycles, which caused rainfall cycles, which caused crop cycles, which caused business cycles.

It was not a bad theory—except for one thing. A more careful calculation of the sunspot cycles lengthened their periodicity to 11 years and the neat correspondence between celestial mechanics and the vagaries of business broke down. Sunspots went the way of astronomy and the quest for the motivating factors of business cycles returned to more earthbound considerations.

It returned, as a matter of fact, to an area first bumblingly but intuitively pointed out by Malthus a century before—the area of saving.

Perhaps we will remember the doubtings of Parson Malthus—his rather inarticulate feeling that saving could somehow result in a "general glut." Ricardo had scoffed; Mill had pooh-poohed; and the idea had become part of the paraphernalia of the underworld. To say that saving might be a source of trouble—why, that was impugning thrift itself! It was almost immoral: had not Adam Smith written, "What is prudence in the conduct of every private family can scarce be folly in that of a great nation?"

But when the early economists refused to consider that saving might be a stumbling block for an economy, they were not indulging in moral proselytizing; they were only observing the facts of the real world.

For in the early 1800's, by and large those who saved were the very same people as those who put savings to use. In the hard-pressed world of Ricardo or Mill, virtually the only people who could afford to save were wealthy landlords and capitalists, and any sums they scraped together were profitably employed in buying lands or enlarging factory operations. Hence saving was rightly called "accumulation," for it represented a two-sided coin; on the one hand the amassing of a sum of money, and on the other hand its immediate employment in purchasing the tools or buildings or land to make still more money.

But toward the middle of the 19th century, the structure of the economy changed. The distribution of wealth improved and along with it the possibility of saving became open to more and more members of society. And at the same time, business became larger and more depersonalized; increasingly it looked for new capital not just in the pockets of its individual manager-owners but also in the anonymous pocketbooks of savers all over the country. Hence saving and investing became divorced from one another—they became separate operations carried out by separate groups of people.

And this did introduce trouble into the economy—Malthus was right after all, although for reasons he had never seen.

The trouble is so important—so central to the problem of depression—that we must take a moment to make it clear.

We must start out by understanding how we measure the prosperity of a nation. It is not by its gold—poverty-stricken India is rich in gold. Nor is it by its physical assets—buildings, mines, factories, and forests did not evaporate in 1932. Prosperity and depression are not so much matters of past glories but of present accomplishments; therefore they are measured by the incomes that we earn. When most of us individually (and therefore most of us collectively) enjoy high incomes, the Nation is well off; when our total individual (or national) income drops, we are in depression.

But income—national income—is not a static concept. Indeed, the central characteristic of an economy is the flow of incomes from hand to hand. With every purchase that we make, we transfer a part of our incomes into someone else's pocket. Similarly every penny of our own incomes, be it wages, salaries, rents, profits, or interest, ultimately derives from money which someone else has spent. Consider any portion of the income which you enjoy and it will be clear that it has originated from someone else's pocket: when he engaged your services, or patronized your store, or helped maintain the corporation in which you own bonds or stock.

It is by this process of handing money around—taking in each other's wash, it has been described—that the economy is constantly revitalized.

Now to a large extent this process of handing income around takes place quite naturally and without hindrance. All of us spend the bulk of our incomes on goods for our own use and enjoyment—on consumption goods, so-called—and since we go on buying consumption goods with fairly consistent regularity, the handing around of a large portion of our national income is assured. The fact that we must eat and clothe ourselves, and that we crave enjoyment, insures a regular and steady spending on the part of all of us, and thus further insures a regular and steady receiving on the part of others.

So far everything is quite simple and direct. But there is one portion of our incomes which does not go directly out onto the marketplace to become another's income: that is the money we save.

If we tucked our savings into mattresses or hoarded them in cash, we should obviously break the circular flow of income. For then we should be simply freezing some part of the income stream that was handed to us, and returning to society less than it gave to us. If such a freezing process were widespread and continued, there would soon be a cumulative fall in everybody's money income, as less and less was handed around at each turn. We should be suffering from a depression.

But this dangerous break in the income flow does not in fact take place. For in a civilized community we do not freeze our savings. We put them into stocks or bonds or banks and in this way make it possible for them to be used again. Thus, if we buy new stock we give our savings directly to business; if we put our savings in a bank, they can be used on loan by businessmen who seek capital. Whether we bank our savings or use them to buy insurance or securities, the channels exist for those savings to go back into circulation via the activities of business. For when our savings are taken up and spent by business, they again turn up as someone's wages, someone's salary, or someone's profit.

But—and notice this vital fact—there is nothing automatic about this savings-investment channel. Business does not ordinarily need savings to carry on its operations; it works within its regular budget and pays its expenses from the proceeds of its sales. Business only needs savings if it expanding its operation—for its regular receipts will not usually provide it with enough capital to build a new factory or to add substantially to its equipment.

And here is where the trouble enters. A thrifty community will always attempt to save some part of its income. But business is not always in a position to expand its operations. To take an obvious case, it is apparent that the days of great expansion for the radio industry—as contrasted with the television industry—are pretty much a thing of the past. Now if—for reasons we must look into later—all industry is in the position of the radio industry, then obviously investment will be very small.

And therein lies the possibility of depression. For if our savings do not become invested by expanding business firms, our incomes must decline. We should be in the same spiral of contraction as if we had frozen our savings by hoarding them.

Can such an eventuality come to pass? We shall see. But note meanwhile that this is a strange and passionless tug of war. Here are no greedy landlords, no avaricious capitalists. There are only perfectly virtuous citizens prudently attempting to save some of their incomes, and perfectly virtuous businessmen who are just as prudently making up their minds whether the business situation warrants taking the risk of buying a new machine or building a new plant. And yet, on the outcome of those two sensible decisions the fate of the economy hangs. For if the decisions are out of joint—if businessmen invest less than the community tries to save, for example—then the whole economy will have to readjust to the crimp of depression. The enormous question of boom or slump depends—more than on anything else—on this.

The vulnerability of our fate to the seesaw of savings and investment is, in a sense, the price we pay for economic freedom. There is no such problem in Soviet Russia nor was there such in the Egypt of the Pharaohs. For in economies of edict both savings and investment are determined from above, and a total control over the Nation's entire economic life insures that the Nation's savings will be just the right amount to finance its pyramids or powerplants. But not so in a capitalist world. For there both the decision to save and the impetus to invest are left to the free decisions of the economic actors themselves. And because those decisions are free, they can be out of joint. There can be far too little investment to absorb our saving or far too little saving to support our investment. Economic freedom is a highly desirable state—but in bust and boom we must be prepared to face its possible consequences.

We have almost lost sight of John Maynard Keynes and the "Treatise on Money." But not quite. For the treatise was a sparkling exposition of this seesaw of savings and investment. The idea was not original with Keynes—a long list of important economists had already pointed to the critical roles of these two factors in the business cycle. But, as with everything that Keynes touched, the bare abstractions of economics took on a new luster in his prose. Thus:

> It has been usual to think of the accumulated wealth of the world as having been painfully built up out of that voluntary abstinence of individuals from the immediate enjoyment of consumption, which we call thrift. But it should be obvious that mere abstinence is not enough by itself to build cities or drain fens. * * * It is enterprise which builds and improves the world's possessions * * * . If enterprise is afoot, wealth accumulates whatever may be happening to thrift; and if enterprise is asleep, wealth decays whatever thrift may be doing.

But for all its masterful analysis, no sooner had Keynes written the treatise than, figuratively, he tore it up. For the seesaw theory of savings and investment failed at one central point: it did not explain how an economy could remain in a state of prolonged depression. Indeed, as the very analogy of the seesaw indicates, it seemed as if an economy which was weighted down by surplus savings must, in fairly short order, right itself and swing the other way.

For savings and investment—thrift and enterprise—were not utterly unconnected economic activities. On the contrary, they were tied together in the market where businessmen "bought" savings—or at least borrowed them: the money market. Savings, like any other commodity, had its price: the rate of interest. Therefore (so it seemed), at the bottom of a slump when there was a flood of savings, its price should decline—exactly as when there was a glut of shoes, the price of shoes declined. And as the price of savings cheapened—as the rate of interest went down—the incentive to invest appeared very likely to increase: if a new factory was too expensive to build when the money for it would cost 6 percent, might it not look much more profitable when money could be had for a payment of only 3 percent?

Hence the seesaw theory seemed to promise that there would be an automatic safety switch built right into the business cycle itself; that when savings became too abundant, they would become cheaper to borrow, and that thereby business would be encouraged to invest. The economy might contract, said the theory, but it seemed certain to rebound.

But that was exactly what failed to happen in the great depression. The rate of interest declined, but nothing happened. The old nostrums were trotted out—a pinch of local relief and a large dose of hopeful waiting—and still the patient failed to improve. For all its intellectual elegance, something was patently missing from the neat formulation of the swing of savings and investment with the rate of interest always hovering over the seesaw to see that it was kept in motion. Something else must be holding the economy back.

Keynes' master book had been brewing for some time. "To understand my state of mind," he had written to George Bernard Shaw in 1935—he had just reread Marx and Engels at Shaw's suggestion and found them to his liking, "* * * you have to know that I believe myself to be writing a book on economic theory which will largely revolutionize—not, I suppose at once, but in the course of the next 10 years—the way the world thinks about economic problems. * * * I can't expect you or anyone else to believe this at the present stage. But for myself I don't merely hope what I say—in my own mind, I'm quite sure."

He was, as usual, quite right. The book was to be a bombshell. Yet it is very doubtful whether Mr. Shaw would have recognized it as such had he attempted to digest it. It had a forbidding title, "The General Theory of Employment, Interest, and Money," and a still more forbidding interior: one can imagine Shaw goggling on page 25 at "Let Z be the aggregate supply price of the output from employing N men, the relationship between Z and N being written $Z=\phi(N)$, which can be called the Aggregate Supply Function." And if this were not enough to frighten off almost anyone, there was a great dearth of that panorama of social action which the layman had come to expect from a perusal of Smith or Mill or Marx. This was an endless desert of economics, algebra, and abstraction, with trackless wastes of the differential calculus, and only an oasis here and there of delightfully refreshing prose.

And yet the book was revolutionary: no other word will quite do. It stood economics as decisively on its head as had such other revolutionary works as "The Wealth of Nations" or "Das Kapital."

For the book had a startling and dismaying conclusion. There was no automatic safety mechanism after all. Rather than a seesaw which would always right itself, the economy resembled an elevator: it could be going up or down, but it could also be standing perfectly still. And it was just as capable of standing still on the ground floor as at the top of the shaft. A depression, in other words, might not cure itself at all; the economy could lie prostrate indefinitely, like a ship becalmed.

But how could this be? Would not the flood of savings at the bottom of the slump push down the rate of interest, and would this not in turn interest business in the possibility of using cheap money to expand its plant?

Keynes found the solution to the problem in the simplest and most obvious (once it had been pointed out) fact of economic life: there would be no flood of savings at the bottom of the trough. For what happened when an economy went into an economic tailspin was that its income contracted, and what happened as its income contracted was that its savings were squeezed out. How could a community be expected to save as much when everyone was hard up as when everyone was prosperous, asked Keynes. Quite obviously, it could not. The result of a depression would not be a glut of savings, but a drying up of savings; not a flood of saving, but a trickle.

And so it was, in fact. In 1929 the American private citizenry put aside $3.7 billion out of its income; by 1932 and 1933 it was saving nothing—in fact it was even drawing down its old savings made in the years before. Corporations, which had tucked away $2.6 billion at the top of the boom after paying out taxes and dividends, found themselves losing nearly $6 billion 3 years later. Quite obviously Keynes was right: Saving was a kind of luxury which could not withstand hard times.

But the practical consequence of that decline in saving was more portentous than the individual tragedies which accompanied it. It resulted in a paralyzing situation where the economy was in perfect economic balance, even though it was in the throes of social agony. For if there was no surplus of savings, there would be no pressure on interest rates to encourage businessmen to borrow. And if there was no surplus of investment (and the very essence of depression, as we have seen, is that investment is not large enough), then there would be no impetus for expansion. The economy would not budge an inch.

Thus the paradox of poverty amidst plenty and the anomaly of idle men and idle machines. To be sure, at the bottom of a slump there is a heartless contradiction between a crying need for goods and an insufficiency of production. But the contradiction is purely a moral one. For the economy does not operate to satisfy human wants—wants are always as large as dreams. It turns out goods to satisfy demand—and demand is as small as a person's pocketbook. Hence the unemployed are little more than economic zeros; they might as well be on the moon for all the economic influence they exert on the marketplace.

Once investment has declined and the economy has shrunk in size, social misery appears. But not—as Keynes points out—effective social misery: the Nation's conscience will not do as an effective substitute for enough investment. And since savings decline along with investment, the economic flow turns over evenly, quite unperturbed by the fact that it is smaller than it used to be.

A peculiar state of affairs, indeed: a tragedy without a villain. No one can blame society for saving, when saving is so apparently a private virtue; it is equally impossible to chastise businessmen for not investing when no one would be so happy to comply as they—if they saw a reasonable chance for success. No, the difficulty is no longer a moral one; this is no question of justice, exploitation, or even human foolishness. It is a technical difficulty, almost a mechanical fault. But its price is no less high for all of that. For the price of inactivity is unemployment.

But worse follows. Keynes had explained how an economy in the trough of depression could fail to generate its own automatic recovery. That was gloomy enough. But when you turned the Keynesian proposition around, it spelled trouble at the top of the business cycle as well.

For just as savings contracted when the econmy contracted, so they would expand when the economy expanded. And that simple fact had a frightening consequence: it meant that every boom was constantly threatened with collapse. For if at any time investment spontaneously slowed down, the Nation's swollen savings would again exert the upper hand; the chain of handling around of incomes would be broken, and the process of contraction would begin.

Hence in the final analysis, the economy hung on the amount of investment which business carried out. When investment was low, the economy shrank in size; when investment was high, it pulled the Nation up with it; if investment failed to remain high, it permitted the process of contraction to begin again. Riches and poverty, boom and slump, all depended on the willingness of business to invest.

And here was the most indigestible fact of all. That willingness to invest could not go on indefinitely. Sooner or later, investment was bound to contract.

For at any time, an industry is limited by the size of the market to which it caters. Let us take the example of the railroads in the 1860's—a time of vast investment in new railroad lines. The early railway magnates were not building for the markets of 1950; had they proceeded to lay the trackage the economy would need 90 years hence, they would have been building lines to nonexistent cities in uninhabited territory. So they built what could be used—and then they stopped. Similiarly with the auto industry. Even if Henry Ford had been able to find the capital to build the present-day River Rouge plant in 1910, he would have gone bankrupt in a hurry; the roads, the gas stations, the demand for that many cars were simply lacking. Or to bring the matter to the present, the country's utility plants are now spending $6 billion a year to add to their capacity; but they cannot spend $60 or even $16 billion—although someday they may have to. Today no one could use that much power.

Not only is investment limited in size, but typically it proceeds in spurts. You cannot build a railway line mile by mile to keep pace with demand: you build one entire line at a time. You cannot enlarge an auto plant piecemeal beyond a certain size: then you must build an entirely new plant. And having built that line, having constructed that plant, you have satisfied the market for a time. You cease investing.

> Ancient Egypt [wrote Keynes] was doubly fortunate and doubtless owed to this its fabled wealth, in that it possessed two activities; namely, pyramid building and the search for the precious metals, the fruits of which, since they could not serve the needs of man by being consumed, did not stale with abundance. The Middle Ages built cathedrals and sang dirges. Two pyramids, two masses for the dead are twice as good as one; but not so two railways from London to York.

And so investment typically has its pattern: At first eagerness to take advantage of a new opportunity; then caution lest enthusiasm lead to overbuilding; then inactivity when the market has been satisfied for the time being.

If, as each separate investment project came to a halt, another immediately appeared, there need never be a slump. But such is not likely to be the case. The mere fact that human wants are vast does not mean that any investment will pay for itself: The economy is littered with businesses which have died of rash and foolhardy overexpansion. No, most investment needs more than the stimulus of sanguine expectations; it needs something more concrete: some new invention, some better way of doing things, some intriguing product to catch the public eye. And such opportunities, as any businessman will tell you, are not always there.

Hence when one investment project dies, there may not be another ready to step into the breach. If there is—if investment maintains its size, although it changes its composition—the economy will sail smoothly along. But if there is no ready substitute for each investment casualty, the pressure of savings will make itself felt and contraction will begin. And needless to say, investment does not thrive in such a dwindling market.

All this was the gloomy diagnosis of "The General Theory."

First, that an economy in depression might well stay there; there was nothing inherent in the situation to pull it out.

Second, that prosperity depended on investment; for if savings were not put to use, the dread spiral of contraction began.

And third, that investment was an undependable drive wheel for the economy; through no fault of the businessman it was constantly threatened with satiety, and satiety spelled economic shrinkage.

In a word, the economy lived in the shadow of collapse.

Certainly it was a morbid outlook. But it would have been utterly unlike Keynes to content himself with making a diagnosis of gloom and letting it go at that. With all its prophecy of danger, "The General Theory" was never meant to be a book of doom. On the contrary, it held out a promise and it proposed a cure.

As a matter of fact, the cure had begun before its actual prescription was written; the medicine was being applied before the doctors were precisely sure what it was supposed to do. The "hundred days" of the New Deal had enacted a flood of social legislation that had been backing up for 20 years behind a dam of governmental apathy. These laws were meant to improve the social tone, the morale, of a discontented nation. But it was not social legislation which was designed to revitalize the patient. That tonic was something else: the deliberate undertaking of Government investment.

It began not so much as investment as makeshift work relief. Unemployment had reached the point at which some sort of action was dictated by pure political necessity—after all, this was a time when there had recently been riots in Dearborn and a ragged march on Washington, when families huddled for warmth in municipal incinerator buildings and even scrabbled for food in garbage trucks. Relief was essential and began under Hoover; then under Roosevelt relief turned into leaf-raking, and leaf-raking turned into constructive enterprise. The Government was suddenly a major economic investor itself: Roads, dams, auditoriums, airfields, harbors, and housing projects blossomed forth.

Keynes came to Washington in 1934—this was when he made his notes on the impression of President Roosevelt's hands—and urged that the program be extended further. The statistics showed that the bottom had fallen out of private investment activity: business expansion, which had pumped out $15 billion in wages and salaries and profits in 1929, had fallen to the appalling figure of $886 million in 1932—a drop of 94 percent. Something had to start up the investment motor which pulled the economic car up the shaft, and he hoped that Government spending would act as such a stimulus by bolstering the Nation's general buying power—"priming the pump" it was called in those days.

Hence when "The General Theory" came out in 1936, what it offered was not so much a new and radical program as a defense of a course of action which was already being applied. A defense and an explanation. For "The General Theory" clearly pointed out that the catastrophe facing America and, indeed, the whole Western World, was only the consequence of a lack of sufficient investment on the part of business. And so the remedy was perfectly logical: if business was not able to expand, the Government must take up the slack.

With his tongue only partly in his cheek Keynes had written:

> If the Treasury were to fill old bottles with bank notes, bury them at suitable depths in disused coal mines which are then filled up to the surface with town rubbish, and leave it to private enterprise on well tried principles of laissez-faire to dig the notes up again * * * there need be no more unemployment and with the help of the repercussions, the real income of the community would probably become a good deal larger than it is. It would, indeed, be more sensible to build houses and the like; but if there are practical difficulties in the way of doing this, the above would be better than nothing.

To some it no doubt appeared that many of the more unorthodox WPA projects were no more sane than Keynes' whimsical proposal. But now, at least, they had a rationale behind them: if private enterprise found itself unable to carry forward with a big enough program of investment, then the Government must fill in as best it could—the need for investment of some sort was so imperative that almost anything was better than nothing.

And if investment could not be directly stimulated, why then, at least consumption could. For while investment was the capricious element in the system, consumption provided the great floor of economic activity; hence the WPA projects were thought to attack the problem with a two-edged sword: by directly helping to sustain the buying power of the otherwise unemployed, and by leading the way for a resumption of private business expansion.

Keynes himself in a letter to the New York Times in 1934 wrote, "I see the problem of recovery in the following light: How soon will normal business enterprise come to the rescue? On what scale, by which expedients, and for how long is abnormal Government expenditure advisable in the meantime?"

Note "abnormal." Keynes did not see the Government program as a permanent interference with the course of business or as anything but a helping hand to a system that had slipped and was struggling to regain its balance.

It seemed the essence of commonsense; in fact, it was the essence of commonsense. And yet the pump-priming program never brought the results that the planners had hoped for. Total Government spending, which had hovered at the $10 billion level from 1929 until 1933, rose to $12 billion, to $13 billion, then to $15 billion in 1936. Private investment picked itself up from the floor and recovered two-thirds of its loss: private firms invested $10 billion by 1936. The national income and national consumption rose by 50 percent after 3 years of Government injections. And yet unemployment lingered on; it was manageable now, but there were still at least 9 million out of work—hardly a mark of a new economic era.

There were two reasons why the cure did not work better. First, the Government program of investment was never carried out to the full extent that would have been necessary to bring the economy up to full employment. Later, in the Second World War, Government spending rose to the monumental figure of $103 billion: that brought not only full employment, but inflation. But within the framework of a peacetime economy in the thirties, such all-out spending was quite impossible; indeed, even a modest program of Government investment soon brought murmurs that Federal power was overstepping its traditional bounds.

The second reason is closely allied with the first. Neither Keynes nor the Government spenders had taken into account that the beneficiaries of the new medicine might consider it worse than the disease. Government investment was meant as a helping hand for business. It was interpreted by business as a threatening gesture.

Nor is this surprising. The New Deal had swept in on a wave of antibusiness sentiment; values and standards that had become virtually sacrosanct were suddenly held up to skeptical scrutiny and criticism. The whole conception of "business rights," "property rights," and the "role of Government" was rudely shaken; within a few years business was asked to forget its traditions of unquestioned preeminence and to adopt a new philosophy of cooperation with labor unions, acceptance of new rules and regulations, reform of many of its practices. Little wonder that it regarded the Government in Washington as inimical, biased, and downright radical. And no wonder, in such an atmosphere, that its eagerness to undertake large-scale investment was dampened by the uneasiness it felt in this unfamiliar climate.

Hence every effort of the Government to undertake a program of sufficient magnitude to mop up all the unemployed—perhaps a program twice as large as it did in fact undertake—was assailed as further evidence of socialist design. And at the same time, the halfway measures which the Government did employ were just enough to frighten business away from the undertaking of a full-scale effort by itself. It was a situation not unlike that found in medicine; the medicine cured the patient of one illness, anly to weaken him with its side effects. Government spending never truly cured the economy—not because it was economically unsound, but because it was ideologically upsetting.

It was not meant to be upsetting; it was a policy born of desperation rather than design. Had the Government not begun to open the valve of public investment, eventually private business would surely once again have led the way: it always had in the past, and despite the severity of the great depression, it would in time unquestionably have found new avenues of adventure. But it was impossible to wait. The American people had waited for 4 long years, and they were in no mood to wait much longer. Not only were there disturbances in the land, but there were troubling voices in the air. The voice of

Marx rang louder than it ever had in the past; many pointed to the unemployed as prima facie evidence that Marx was right. The mumble of Veblen was discernible in the faddish vogue of the technocrats who wanted to call out not the proletariat but the engineers. And there was the still more chilling voice that never wearied of pointing out that Hitler and Mussolini knew what to do with their unemployed. In this welter of remedies and advocacy of desperate action, the voice of "The General Theory," the gentlemanly tones of Keynes, were certainly moderate and reassuring.

For while Keynes espoused a policy of managing capitalism, he was no opponent of private enterprise. "It is better that a man should tyrannize over his bank balance than over his fellow citizens," he had written in "The General Theory," and he went on to state that if the Government would only concern itself with providing enough investment, the working of the vast bulk of the economy could and should be left to private initiative. In review, "The General Theory" was not a radical solution; it was, rather, an explanation of why an inescapable remedy should work. If an economy in the doldrums could drift indefinitely, the price of Government inaction might be graver by far than the consequences of bold unorthodoxy.

The real question was a moral, not an economic one. During the Second World War, Professor Hayek wrote a book, "The Road to Serfdom," which, for all its exaggerations, contained a deeply felt and sincere indictment of the overplanned economy. Keynes sympathized with and liked the book. But while praising it, he wrote to Hayek:

> I should * * * conclude rather differently. I should say that what we want is not no planning, or even less planning, indeed I should say we almost certainly want more. But the planning should take place in a community in which as many people as possible, both leaders and followers, wholly share your own moral position. Moderate planning will be safe enough if those carrying it out are rightly oriented in their own minds and hearts to the moral issue. This is in fact already true of some of them. But the curse is that there is also an important section who could be said to want planning not in order to enjoy its fruits, but because morally they hold ideas exactly the opposite of yours, and wish to serve not God but the devil.

Is this, perhaps, a naive hope? Can capitalism be managed—in the sense that Government planners will turn the faucet of investment on and off in such a way as to supplement, but never to displace, private investment? Certainly this is one of the central issues of today. But let us postpone discussion of it to the coming chapter.

For here we are dealing with the man Keynes and his beliefs, however misguided, idealistic, impractical, or salutary we may value them. And it would be a grave error in judgment to place this man, whose aim was to rescue capitalism, in the camp of those who want to submerge it. True, he urged the socialization of investment; but if he sacrificed the part, it was to save the whole.

For at heart he was a conservative and not much inclined to mask the fact. "How can I accept the (communistic) doctrine," he had written in 1931—when the point was by no means so clear to many others, "which sets up as its Bible, above and beyond criticism, an obsolete textbook which I know not only to be scientifically erroneous but without interest or application to the modern world? How can I adopt a creed which, preferring the mud to the fish, exalts the boorish proletariat above the bourgeoisie and the intelligentsia, who with all their faults, are the quality of life and surely carry the seeds of all human achievement?"

No, one might quibble with his theories, with his diagnosis, and with his cure—although, in justice, it must be said that no more thoughtful theory, no profounder diagnosis, and no more convincing cure has yet been propounded by those who insist that Keynes was only a mischievous meddler with a system that worked well enough. But no one could gainsay his aim: The creation of a capitalist economy in which unemployment—the single greatest and gravest threat to its continuance—would be forever eliminated.

He was a man incapable of doing only one thing at a time. While he was constructing "The General Theory" in his mind, he was building a theater in Cambridge with his pocketbook. It was a typically Keynesian venture. Starting at a loss, the theater was in the black in 2 years, and its artistic success was immense. Keynes was everywhere at the same time: financial backer, ticket taker (on one occasion when the clerk failed to materialize), husband of the leading lady (Lydia acted in Shakespeare, with extremely good notices), even concessionaire. He attached a restaurant to the theater and jealously watched its receipts, graphing them against different types of entertainment to ascertain how food consumption varied with the state of one's humor. There was a bar, too, where champagne was sold at a specially low discount to promote its wider consumption. It was probably the most pleasant interlude in his pleasant life.

But it did not go on for long. In 1937 his success story was cut short; he suffered a heart attack and was forced into idleness. Well—comparative idleness. He continued to do an active trading business and to edit the Economic Journal and to write a few brilliant articles in defense of "The General Theory." One academician had said, upon its appearance, "Einstein has actually done for physics what Mr. Keynes believes himself to have done for economics," and Keynes was not a man to let someone get away with that. When he wanted to, he could wield an acid pen, and he now set to work systematically to demolish his critics, singly and en masse; sometimes with sarcasm, occasionally with brilliance, and not infrequently with petulance: "Mr. X refuses to understand me," seemed to rise like a sigh of despair from many of his brief communications.

But the war was approaching; Munich was followed by worse. Keynes watched in indignation the pusillanimous letters of some left-wingers to the New Statesman and Nation, on whose board he managed to find time to serve. He wrote to its columns: "Surely it is impossible to believe that there can really be such a person as 'a Socialist'! I disbelieve in his existence," and then, "When it comes to a showdown, scarce 4 weeks have passed before they remember that they are pacifists and write defeatist letters to your columns, leaving the defense of freedom and civilization to Colonel Blimp and the old school tie, for whom three cheers."

When the war came Keynes was too ill to be a permanent member of the Government. They gave him a room in the Treasury and picked his brains. He had already written another book, "How To Pay for the War," a daring plan that urged deferred savings as the principal means of financing the war. The plan was simple—a portion of every wage earner's pay would automatically be invested in Government bonds which would not be available for redemption until after the war. Then, just when consumer buying would again be needed, the savings certificates could be cashed.

Compulsory saving—what a change from his earlier efforts to achieve a kind of compulsory investment. But the change was in the times and not in Keynes' thinking. The old problem had been too little investment and its symptom had been unemployment. The new problem was too much investment—an all-out armament effort—and its symptom was inflation. But the framework of "The General Theory" was as useful in understanding inflation as it had been in understanding inflation's opposite—unemployment. Only it was upside down. Now more and more incomes were being handed out with each turn of the wheel, instead of less and less. Now savings were far short of what was needed to balance out the flow of income, instead of being embarrassingly large.

Accordingly, the cure was the opposite of the depression tonic. Then Keynes had urged that investment be bolstered by every possible means; now he urged that savings must be increased.

The point is important because many have mistakenly judged Keynes as an economist who favored inflation. He did favor "reflation" (a pumping up of incomes and not prices) from the depths of the depression. But to think that he favored inflation for inflation's sake was to disregard such a passage as this from "The Economic Consequences of the Peace":

> Lenin is said to have declared that the best way to destroy the capitalist system was to debauch the currency. By a continuing process of inflation, governments can confiscate, secretly and unobserved, an important part of the wealth of their citizens. By this method they not only confiscate, but they confiscate arbitrarily * * *. Lenin was certainly right. There is no subtler, no surer means of overturning the existing basis of society than to debauch the currency. The process engages all the hidden forces of economic law on the side of destruction, and does it in a manner which not one man in a million is able to diagnose.

But despite its logic and its appeal—Keynes made much of the fact that his deferred savings plan would serve to widen the distribution of wealth by making everyone an owner of Government bonds—the plan failed to arouse much support. It was too new; the old methods of taxation and rationing and voluntary savings drives were tried and trusty weapons of war finance. A deferred credit scheme was tacked on as an ornamental flourish but it was never given the central place Keynes had envisaged for it.

But he had no time to lament its cool reception; he was now fully embroiled in the British war effort. In 1941 he flew via Lisbon to the United States. It was to be the first of six such trips; Lydia went with him as his nurse and guardian. Ever since his first heart attack she had assumed the role of timekeeper for her indefatigable husband and many a dignitary had been politely but firmly ushered out at the expiration of his allotted stay. "Time, gentlemen," said Lydia, and business stopped.

His trips to the United States involved the precarious problems of Britain's war finance and the overhanging question of what was to happen in the terrible postwar interim. Britain was not the only one concerned; the United States, as well, wanted to lay the foundation for a flow of international trade which would avoid the desperate financial warfare which had already led to physical warfare. An International Bank and an International Monetary Fund were to be established which would act as guardians of the international flow of money; in place of the old dog-eat-dog world where each nation sought to undercut everyone else, there would be a new cooperative effort to help out a nation which found itself in monetary difficulties.

The final conference was held at Bretton Woods. Keynes, despite his illness and fatigue, clearly dominated the conference; not when it came to winning all his points, for the final plan was far closer to the American proposals than to the British, but by virtue of his personality. One of the delegates gives us an insight into the man in this entry in his journal:

> This evening, I participated in a particularly recherché celebration. Today is the 500th anniversary of the concordat between King's College, Cambridge, and New College, Oxford, and to commemorate the occasion, Keynes gave a small banquet in his room * * * Keynes, who had been looking forward to the event for weeks as excitedly as a schoolboy, was at his most charming. He delivered an exquisite allocution. * * * It was an interesting example of the curiously complex nature of this extraordinary man. So radical in outlook in matters purely intellectual, in matters of culture, he is a true Burkean conservative. It was all very pianissimo, as befitting the occasion, but his emotion when he spoke of our debt to the past was truly moving.

When Keynes made his final speech at the conclusion of the conference—"If we can continue in a larger task, as we have begun in this limited task, there is hope for the world"—the delegates rose and cheered him.

As always, his major efforts did not preclude a few minor ones. He was made a director of the Bank of England ("which will make an honest woman of the other is anyone's guess," he had declared) and chairman of a new committee on the music and arts which had been established, like the English universities, under the aegis of the Government. Thus, while he was carrying the weight of presenting Britain's point of view to an international economic council, he was also keeping up a stream of correspondence on music travelers, the Vic Wells Ballet, poetry reading, and library exhibits. And of course he kept on collecting; he scooped the Folger Library on a rare volume of Spenser and explained a little guiltily to the librarian that he had used the Foreign Office bag to have the catalog sent over to him.

And the honors started to pour in. He was elevated to the peerage: he was now Lord Keynes, Baron of Tilton, an estate which he had bought in middle life only to discover to his delight that one of the branches of the Keynes line had once owned these lands. There were honorary degrees to be accepted at Edinburgh, at the Sorbonne, and from his own university. There was an appointment to the board of trustees of the national gallery. And still there was work: the first loan to Britain had to be negotiated and Keynes, of course, was given the task of presenting Britain's viewpoint. When he returned from that trip and a reporter asked him if it were true that England was now to be the 49th State, Keynes' reply was succinct: "No such luck."

In 1946 the ordeal was over. He went back to Sussex to read and relax and prepare for a resumption of teaching at Cambridge. One morning there was a fit of coughing; Lydia flew to his side; he was dead.

The services were held in Westminster Abbey. His father, John Neville Keynes, aged 93, and his mother, Florence, walked up the aisle. For all their sorrow, few parents could have wished for more in a son. The country mourned the loss of a great leader, gone just at a time when his acumen and wisdom were most needed; as the Times said in a lengthy obituary on April 22, "By his death the country has lost a great Englishman."

He was not an angel by any means. This most sparkling of the great economists was only a human being, albeit a remarkable one, with all the faults and foibles of any person. He could win 22 pounds from two countesses and a duke at bridge and crow delightedly; he could also undertip a bootblack in Algiers and refuse to rectify his error saying, of all things, "I will not be a party to debasing the currency." He could be extraordinarily kind to a slow-thinking student (economists, he said, should be humble, like dentists) and obnoxiously cutting to a businessman or high official to whom he happened to take an intuitive dislike. Sir Harry Goshen, the chairman of the National Provincial Bank, once rubbed Keynes wrong by urging that "we let matters take their natural course." Keynes replied "Is it more appropriate to smile or rage at these artless sentiments? Best of all, perhaps, to let Sir Harry take his natural course."

Keynes himself gave the clue to his own genius—although he was not at the time writing about himself. Discussing his old teacher Alfred Marshall (whom he both loved and rather lovingly derided as "an absurd old man"), Keynes spelled out the qualifications for an economist:

> The study of economics does not seem to require any specialized gifts of an unusually high order. Is it not, intellectually regarded, a very easy subject compared with the higher branches of philosophy or pure science? An easy subject, at which very few excel. The paradox finds its explanation, perhaps, in that the master economist must possess a rare combination of gifts. He must be mathematician, historian, statesman, philosopher—in some degree. He must understand symbols and speak in words. He must contemplate the particular in terms of the general, and touch abstract and concrete in the same flight of thought. He must study the present in the light of the past for the purposes of the future. No part of man's nature or his institutions must lie entirely outside his regard. He must be purposeful and disinterested in a simultaneous mood; as aloof and incorruptible as an artist, yet sometimes as near the earth as a politician.

Marshall—as Keynes says—only approximated that ideal, for Victorian that he was, his economics lacked the necessary iconoclasm to give it deep social penetration. Keynes came closer: the Bloomsbury attitude of "nothing sacred" spilled over into the sacred precincts of economic orthodoxy; once again the world was put into focus by a man not so blind as to fail to see its sickness, and not so emotionally and intellectually dispossessed as to wish not to cure it. If he was an economic sophisticate, he was politically devout, and it is in this curious combination of an engineering mind and a hopeful heart that his greatness lies.

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